FEDERAL COMMUNICATIONS COMMISSION

Agency Financial Report

Fiscal Year 2020

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I. MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)

Message from the Chairman

As Chairman of the Federal Communications Commission (FCC or Commission), I am pleased to present the FCC's fiscal year (FY) 2020 Agency Financial Report. This report provides useful financial and performance information about the FCC's activities over the course of FY 2020.

Under my leadership, the Commission has acted to link the FCC's mission to its strategic goals, which include closing the digital divide, promoting innovation, protecting consumers and public safety, and reforming the FCC's processes. Below are examples of the Commission's substantial efforts to carry out its mission during the past fiscal year.

To accelerate the deployment of 5G, the next generation of wireless broadband connectivity, the FCC has continued to implement its comprehensive strategy to Facilitate America's Superiority in 5G Technology (the 5G FAST Plan). The Plan has three key components: (1) pushing more spectrum into the marketplace; (2) promoting the deployment of wireless infrastructure; and (3) modernizing outdated regulations. As part of this plan, earlier this year, the FCC concluded Auction 103, in which bidders won licenses for 3,400 megahertz of spectrum in the upper 37, 39, and 47 GHz bands, the most spectrum ever offered in a single auction. On August 25, the FCC concluded its auction of Priority Access Licenses in the 3550-3650 MHz portion of the 3.5 GHz band, raising over $4.543 billion in net bids, with 228 bidders winning a total of 20,625 licenses. The Commission also has taken a major step forward to reform the rules for 2.5 GHz band spectrum, which is underused mid-band spectrum. For the first time in FCC history, we created a special opportunity—a Rural Tribal Priority Window—to enable Tribal entities to get early access to 2.5 GHz spectrum over rural Tribal lands for free, before the start of an auction. Altogether, through this and other work, we are on track to make available more than 600 megahertz of mid-band spectrum for next-generation wireless services like 5G. We have also opened up the entire 6 GHz band for unlicensed operations, providing a powerful complement to licensed 5G cellular services.

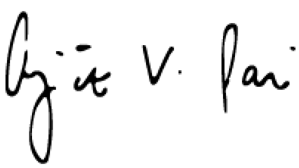
Over this past year, the Commission also took its boldest step yet to close the digital divide by establishing the new Rural Digital Opportunity Fund to efficiently fund the deployment of high-speed broadband networks in rural America. This new program builds upon the success of the FCC's previous efforts and will provide up to $20.4 billion over the next decade to support up to gigabit service for up to 5.3 million rural homes and businesses through a competitive reverse auction process. The FCC will target support to areas lacking access to fixed 25/3 Mbps broadband through a two-phase approach. The first phase addresses areas of the country that everybody agrees are unserved, and the Phase I reverse auction began last month. The second phase will cover areas in which the first phase doesn't yield winning bidders, as well as any areas that are partially served. Through the Rural Digital Opportunity Fund, the Commission will connect more Americans to faster broadband networks than any other Universal Service Fund program in the history of the Commission.

The FCC also took aggressive action in response to the COVID-19 pandemic. For instance, the Commission successfully implemented the COVID-19 Telehealth Program to help health care providers deliver connected care services to patients at their homes or mobile locations in response to the pandemic. The Program provided immediate support to eligible health care providers responding to the pandemic by fully funding their telecommunications services, information services, and devices necessary to make critical connected care services available to their patients. In the CARES Act, which was signed into law on March 27, Congress provided the FCC with $200 million for this program. Just four days later, the

Commission adopted rules to implement the program. The FCC then began accepting applications on April 13. All funds were committed by July 8—less than four months after enactment of the CARES Act—aiding patients, hospitals, and healthcare providers in some of the hardest-hit areas of the country. The Commission funded 539 worthy applications from health providers in 47 states plus Washington, D.C. and Guam, including, among others, the Navajo Nation Department of Health in Window Rock, Arizona.

Beyond the COVID-19 Telehealth Program, the Commission has done much more to address the pandemic—ranging from rule waivers to assist schools and libraries through the E-Rate program to regulatory dispensations to make it easier for low-income Americans to benefit from the Lifeline to increased funding for the Rural Health Care program. The FCC has also afforded new flexibility to ensure continued access to Telecommunications Relay Services for individuals with speech or hearing disabilities, established the Keep Americans Connected Pledge to ensure Americans could remain online during lockdowns earlier this year, and granted special temporary authority for wireless providers to use additional spectrum so that wireless networks could quickly adapt to the new patterns of use occasioned by the pandemic.

In addition, I am pleased to report that for the fifteenth straight year, the FCC has received an "unmodified" opinion on its financial statements from the FCC's Office of Inspector General's independent auditors. Maintaining proper stewardship over the Commission's resources is a team effort, and I am grateful to the FCC's staff for ensuring the FCC's continued financial management success this year. As noted by the auditors, the FCC still can make improvements, and I welcome the findings from the independent auditors' report as well as the management and performance challenges from the Office of Inspector General. Agency management agrees that these are important challenges and concurs with the OIG's assessment of our progress in addressing these challenges. The Commission will work to address these findings and concerns. Moving forward, I remain focused on promoting the public interest by taking actions that result in more innovation, more investment, better products and services, lower prices, more job creation, and faster economic growth.



Ajit V. Pai
Chairman
November 13, 2020

Overview of the Federal Communications Commission

Introduction

Office of Management and Budget (OMB) Circular No. A-136, released on August 27, 2020, states that agencies may choose to produce either a consolidated Performance and Accountability Report (PAR) or a separate Agency Financial Report (AFR) with an Annual Performance Report (APR). The Federal Communications Commission (FCC, Agency, or Commission) has chosen to produce the AFR. The FCC will include its Fiscal Year (FY) 2020 APR with its Congressional Budget Justification and will post it on the Commission's website at https://www.fcc.gov/about/strategic-plans-budget.

The Commission's AFR includes three sections:

Section 1 consists of Management's Discussion and Analysis (MD&A) that presents a message from the Chairman, an overview of the FCC, including the senior leadership, Agency's mission and vision statements, organizational structure, organizational chart, map of field offices, strategic goals and objectives, strategies and resources to achieve goals, entity components for financial statement purposes, payment integrity, performance highlights, overall status of audit recommendations, management assurances, financial management systems strategy, financial discussion and analysis, and other key financial statement analysis.

Section 2 contains the Commission's financial information. This section contains the independent auditor's reports, Commission's response to the independent auditor's reports, consolidated financial statements, notes to the financial statements, and required supplementary information.

Section 3 presents other information such as a summary of financial statement audit results, a summary of management assurances, required reporting on payment integrity pursuant to the Improper Payments Information Act (IPIA) of 2002, as amended by the Improper Payments Elimination and Recovery Act (IPERA) of 2010, Improper Payments Elimination and Recovery Improvement Act (IPERIA) of 2012, and Payment Integrity Information Act of 2019, management and performance challenges from the Office of Inspector General, and a schedule of civil monetary penalties.

About the Federal Communications Commission

The FCC is an independent regulatory agency of the United States (U.S.) Government. The FCC is charged with regulating interstate and international communications by radio, television, wire, satellite, and cable. The Commission also regulates telecommunications, advanced communication services, and video programming for people with disabilities, as set forth in various sections of the Communications Act.

The Commission's headquarters is located in Washington, D.C. It has 13 field offices throughout the nation, including three regional offices located in Atlanta, GA, Columbia, MD, and Los Angeles, CA.

Senior Leadership

The FCC is directed by five Commissioners who are appointed by the President and confirmed by the Senate for five-year terms, except when filling the unexpired term of a previous Commissioner. Only three Commissioners can be of the same political party at any given time and none can have a financial interest in any company or entity that has a significant interest in activities regulated by the Commission. The President designates one of the Commissioners to serve as Chairman.

The Chairman serves as the Chief Executive Officer of the Commission, supervising all FCC activities, delegating responsibilities to Offices and Bureaus, and formally representing the Commission before the Congress and the Administration.

The current Chairman and the Commissioners are:

- Chairman Ajit Pai
- Commissioner Michael O'Rielly
- Commissioner Brendan Carr
- Commissioner Jessica Rosenworcel
- Commissioner Geoffrey Starks

Pictured from left to right are Commissioner Jessica Rosenworcel, Commissioner Michael O'Rielly, Chairman Ajit Pai, Commissioner Brendan Carr, and Commissioner Geoffrey Starks.

Mission

As specified in section one of the Communications Act of 1934, as amended, the Commission's mission is to "make available, so far as possible, to all the people of the United States, without discrimination on the basis of race, color, religion, national origin, or sex, rapid, efficient, Nation-wide, and world-wide wire and radio communication service with adequate facilities at reasonable charges." [1] In addition, section one provides that the Commission was created "for the purpose of the national defense" and "for the purpose of promoting safety of life and property through the use of wire and radio communications."[2]

Vision Statement

The FCC's vision is to develop a regulatory environment to encourage the private sector to build, maintain, and upgrade next-generation networks so that the benefits of advanced communications services are available to all Americans. The FCC will work to foster a competitive, dynamic and innovative market for communications services through policies that promote the introduction of new technologies and services and ensure that Commission actions promote entrepreneurship and remove barriers to entry and investment. The Commission will also strive to develop policies that promote the public interest, improve the quality of communications services available to those with disabilities, and protect public safety.

Organizational Structure

In order to accomplish its strategic plan, the FCC is organized by function. There are seven Bureaus and ten Offices. The Bureaus and the Office of Engineering and Technology process applications for licenses to operate facilities and provide communication services, analyze complaints from consumers and other licensees, conduct investigations, develop and implement regulatory programs, and participate in hearings and workshops. Generally, the Offices provide specialized support services, and in addition, the Office of Economics and Analytics manages the auctions program. The Bureaus and Offices regularly join forces and share expertise in addressing FCC-related issues.

The Bureaus

- **The Consumer & Governmental Affairs Bureau** develops and implements consumer policies, including disability access and policies affecting Tribal nations. The Bureau serves as the public face of the Commission through outreach and education, as well as responding to consumer inquiries and informal complaints. The Bureau also maintains collaborative partnerships with state, local, and Tribal governments in such critical areas as emergency preparedness and implementation of new technologies. In addition, the Bureau's Disability Rights Office provides expert policy and compliance advice on accessibility with respect to various forms of communications for persons with disabilities. Finally, the Bureau ensures public facing access to the Commission for persons with disabilities via a team of American Sign Language interpreters and an accessible formats specialist.

- **The Enforcement Bureau** enforces the Communications Act and the FCC's rules. It protects consumers, ensures efficient use of spectrum, furthers public safety, promotes competition, resolves intercarrier disputes, and protects the integrity of FCC programs and activities from fraud, waste, and abuse.

- **The International Bureau** administers the FCC's international telecommunications and satellite programs and policies, including licensing and regulatory functions. The Bureau promotes pro-competitive policies abroad, coordinating the FCC's global spectrum activities and advocating U.S.

[1] 47 U.S.C. § 151.
[2] *Id.*

interests in international communications and competition. The Bureau works to promote high-quality, reliable, interconnected, and interoperable communications infrastructure on a global scale.

- **The Media Bureau** recommends, develops, and administers the policy and licensing programs relating to electronic media, including broadcast, cable, and satellite television in the United States and its territories.

- **The Public Safety and Homeland Security Bureau** develops and implements policies and programs to strengthen public safety communications, homeland security, national security, emergency management and preparedness, disaster management, and network reliability. These efforts include rulemaking proceedings that promote more efficient use of public safety spectrum, improve public alerting mechanisms, enhance the nation's 911 emergency calling system, and establish frameworks for communications prioritization during crisis. The Bureau also maintains 24/7 operations capability and promotes Commission preparedness to assist the public, first responders, the communications industry, and all levels of government in responding to emergencies and major disasters where reliable public safety communications are essential. Finally, the Bureau coordinates the Commission's national security mission and consults with the Defense Commissioner pursuant to 47 CFR § 0.181 of the Commission's rules.

- **The Wireless Telecommunications Bureau** is responsible for wireless telecommunications programs and policies in the United States and its territories, including licensing and regulatory functions. Wireless communications services include cellular, paging, personal communications, mobile broadband, and other radio services used by businesses and private citizens.

- **The Wireline Competition Bureau** develops, recommends, and implements policies and programs for wireline telecommunications, including fixed (as opposed to mobile) broadband and telephone landlines, striving to promote the widespread development and availability of these services. The Bureau has primary responsibility for the Universal Service Fund which helps connect all Americans to communications networks.

The Offices

- **The Office of Administrative Law Judges** is composed of one judge (and associated staff) who presides over hearings and issues decisions on matters referred by the FCC.

- **The Office of Communications Business Opportunities** promotes competition and innovation in the provision and ownership of telecommunications services by supporting opportunities for small businesses as well as women and minority-owned communications businesses.

- **The Office of Economics and Analytics** is responsible for expanding and deepening the use of economic analysis into Commission policy making, enhancing the development and use of auctions, and implementing consistent and effective agency-wide data practices and policies including implementing significant economically-relevant data collections. The Office also manages the FCC's auctions in support of and in coordination with the FCC's Bureaus and Offices.

- **The Office of Engineering and Technology** advises the FCC on technical and engineering matters. This Office develops and administers FCC decisions regarding spectrum allocations and unlicensed devices and coordinates use of the spectrum with the Executive Branch. The Office also oversees the Commission's equipment authorization program to ensure compliance with technical rules and its experimental licensing program to promote new and innovative technologies and services.

- **The Office of the General Counsel** serves as the FCC's chief legal advisor.

- **The Office of the Inspector General** conducts and supervises audits and investigations relating to FCC programs and operations.

- **The Office of Legislative Affairs** serves as the liaison between the FCC and Congress, as well as other Federal agencies.

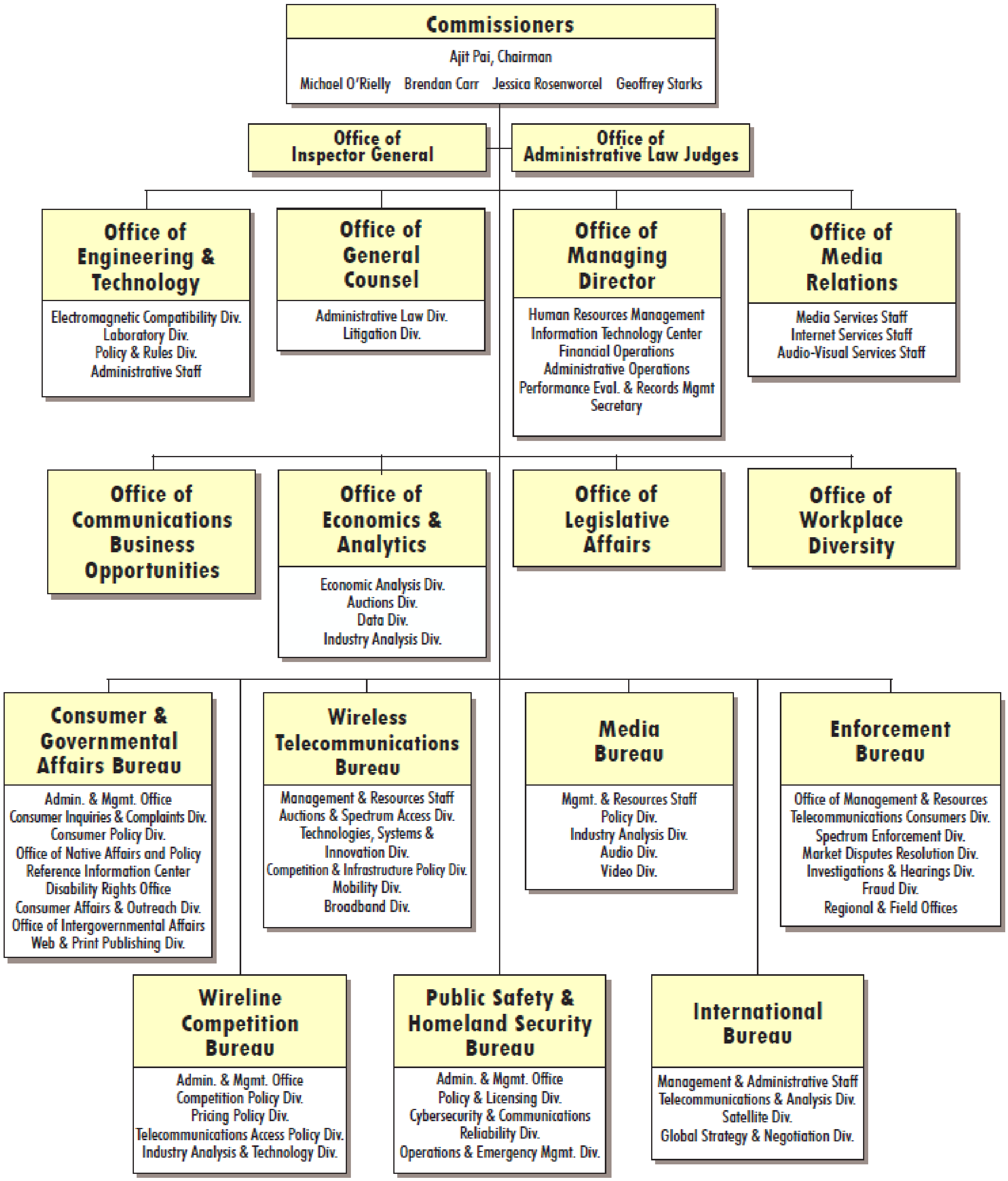
- **The Office of the Managing Director** administers and manages the FCC.

- **The Office of Media Relations** informs the media of FCC decisions and serves as the FCC's main point of contact with the media.

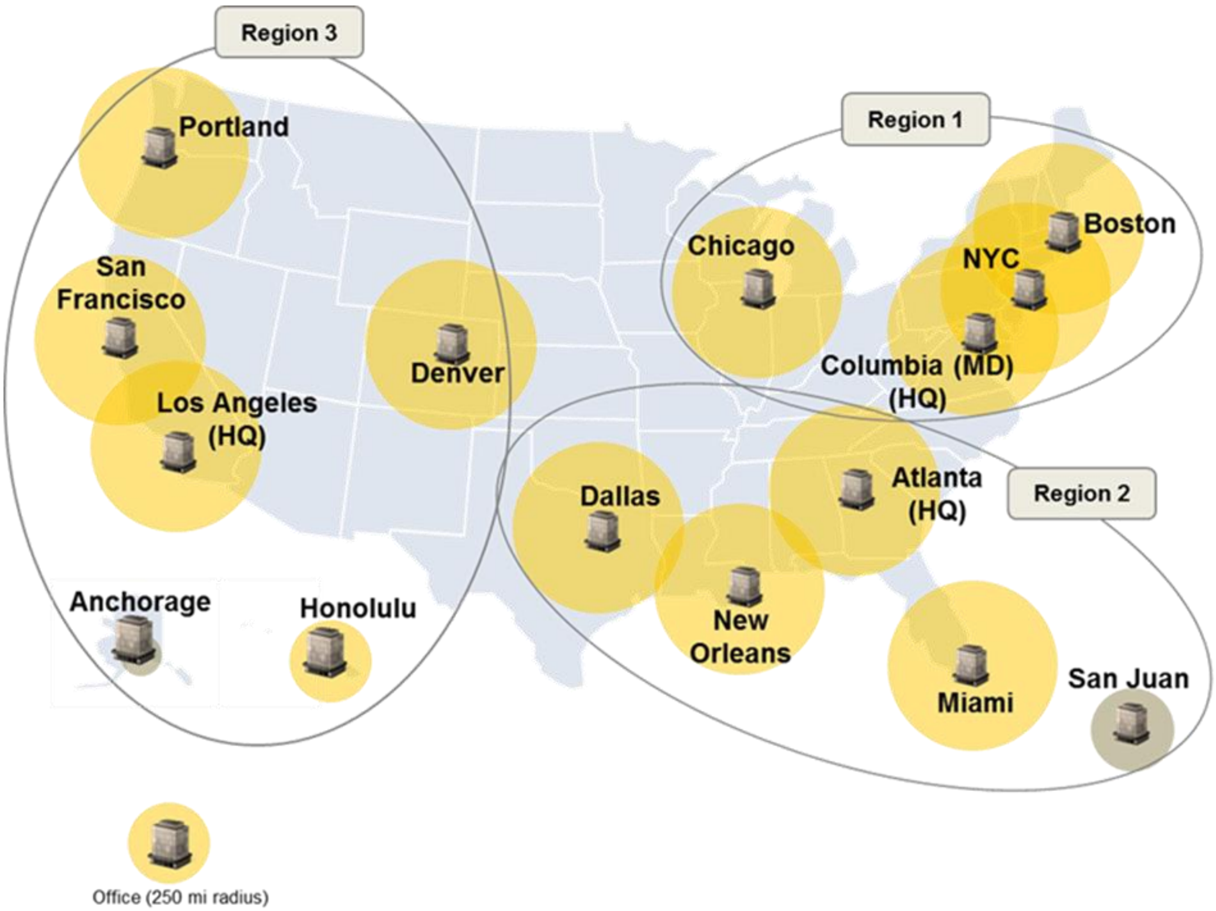
- **The Office of Workplace Diversity** develops, coordinates, evaluates, and recommends to the Commission policies, programs, and practices that foster a diverse workforce, and promotes and ensures equal employment opportunity (EEO) for all employees and applicants without regard to race, color, religion, sex (including pregnancy and gender identity), sexual orientation, national origin, age, disability (mental, intellectual, or physical), marital status, parental status, political affiliation, genetic information (including medical history), or any other basis protected by law.

Additional information on specific Bureau and Office responsibilities can be found in Title 47 of the Code of Federal Regulations and on the Commission's web site at: http://www.fcc.gov.

Organizational Chart



Map of FCC Enforcement Bureau's Field Offices



Note: The San Juan and Anchorage offices are not staffed by Full-Time Equivalents (FTEs) on a regular basis.

Strategic Goals and Objectives

The FCC is responsible to Congress and the American people for ensuring a vibrant competitive marketplace driven by policies that create an environment for innovation, investment, better products and services for consumers, lower prices, more job creation, and faster economic growth. The FCC must also provide leadership to assure that the communications needs of public safety officials are met; promote the universal availability and deployment of broadband and telecommunications services; make communications services accessible to all people; and protect and empower consumers in the communications marketplace. For fiscal year (FY) 2018, the Commission revised its strategic goals to reflect the agency's focus on expanding broadband deployment and promoting innovation in the communications marketplace. The Commission's strategic goals are:

Strategic Goal 1: Closing the Digital Divide

Develop a regulatory environment to encourage the private sector to build, maintain, and upgrade next-generation networks so that the benefits of advanced communications services are available to all Americans. Where the business case for infrastructure investment doesn't exist, employ effective and efficient means to facilitate deployment and access to affordable broadband in all areas of the country.

Strategic Goal 2: Promoting Innovation

Foster a competitive, dynamic, and innovative market for communications services through policies that promote the introduction of new technologies and services. Ensure that the FCC's actions and regulations reflect the realities of the current marketplace, promote entrepreneurship, expand economic opportunity, and remove barriers to entry and investment.

Strategic Goal 3: Protecting Consumers and Public Safety

Develop policies that promote the public interest by providing consumers with freedom from unwanted and intrusive communications, improving the quality of communications services available to those with disabilities, and protecting public safety.

Strategic Goal 4: Reforming the FCC's Processes

Modernize and streamline the FCC's operations and programs to increase transparency, improve decision-making, build consensus, reduce regulatory burdens, and simplify the public's interactions with the agency.

Strategies & Resources to Achieve Goals

The Commission has identified strategies and resources to achieve its performance goals for each strategic goal. Details on the Commission's strategies and resources for achieving its strategic goals are included in the Commission's strategic plan at: https://www.fcc.gov/about/strategic-plans-budget.

Components of the FCC for Financial Statements Purposes

In addition to the activities directly undertaken by the above bureaus and offices, the Commission's components for financial statement purposes include:

Universal Service Fund (USF) - The Telecommunications Act of 1996 further amended the Communications Act of 1934 to codify and modify the Commission's longstanding policy of promoting universal telecommunications service throughout the nation.[3] Pursuant to section 254(d) of the Act, the Commission established rules and regulations governing how certain telecommunications service providers contribute to the USF and how those monies are disbursed.[4] For budgetary purposes, for FY 2019 and prior years, the USF comprised five elements that consisted of the four USF programs and the Telecommunications Relay Service (TRS) Fund. The four USF programs include: the High Cost Program (also known as the Connect America Fund), the Lifeline Program, the Rural Health Care Program, and the Schools and Libraries Program (also known as E-Rate). Starting with FY 2020, TRS numbers are shown under its own separate account.

The Universal Service Administrative Company (USAC) administers the four USF programs and will now also administer the newly established Connected Care Pilot Program (CCPP) under the Commission's direction. These four programs and the CCPP are funded through mandatory contributions from U.S. telecommunications service providers, including local and long-distance phone companies, wireless and paging companies, payphone providers, and providers of interconnected Voice over Internet Protocol (VoIP) services. The High Cost Program provides funding to eligible service providers to help defray the cost of serving customers in high cost and rural areas. The Lifeline Program provides monthly discounts to help make communications services more affordable for low-income consumers. The Rural Health Care Program provides support for both telecommunications and advanced telecommunications and information

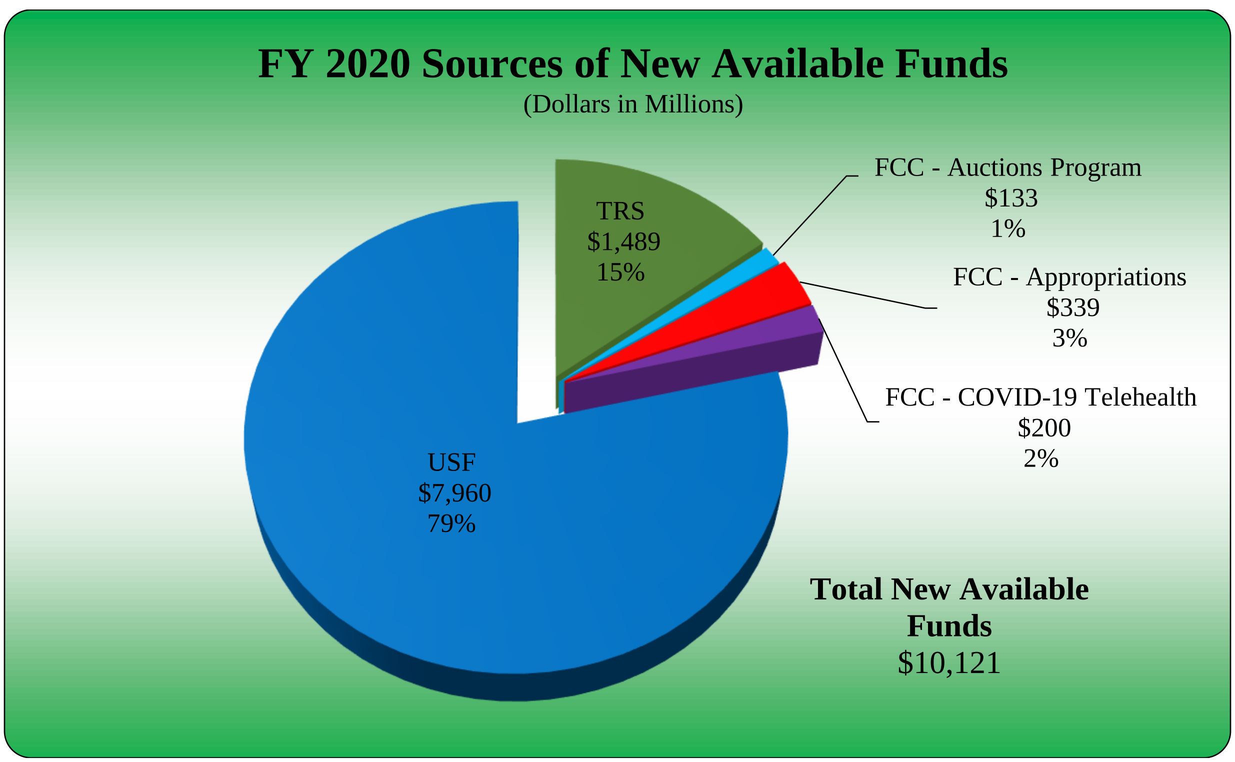
[3] *See* Telecommunications Act of 1996, Pub. L. No. 104-104, 110 Stat. 56 (1996).
[4] *See* 47 U.S.C. § 254(d).

services for eligible health care providers. The E-Rate Program provides discounts for telecommunications, Internet access, and internal connections to eligible schools and libraries. Lastly, the CCPP will provide support to help defray health care providers' costs of providing connected care services, particularly to low-income Americans and veterans. In FY 2020, the USF accounted for approximately $7,960 million in new available funds on the Commission's Combined Statement of Budgetary Resources. Additional information on USAC and the USF can be found at http://www.usac.org and https://www.fcc.gov/general/universal-service.

Telecommunication Relay Service (TRS) Fund – The TRS Fund represents a program established under section 225 of the Act.[5] This statute provides for a mechanism to support relay services necessary for telecommunications access by speech or hearing-impaired populations. Prior to FY 2020, the TRS fund was included under the USF. Beginning with FY 2020, TRS is reported under its own separate account approved by OMB in FY 2019.

Rolka Loube, LLC (RL) is the administrator for the TRS Fund. The TRS Fund compensates TRS providers for the reasonable costs of providing interstate telephone transmission services that enable a person with a hearing or speech disability to communicate with a person without hearing or speech disabilities. The costs of providing interstate TRS are recovered from subscribers of interstate telecommunications services. In FY 2020, the TRS Fund accounted for approximately $1,489 million in new available funds on the Commission's Combined Statement of Budgetary Resources. Additional information on RL and the TRS Fund can be found at http://www.rolkaloube.com/ and https://www.fcc.gov/general/telecommunications-relay-services-trs.

For further clarification on the financial relationships between the Commission and these components, see Note 1 of the financial statements in Section 2. Also, see the chart below which shows the relative size of the component funds in comparison to the major sources of funds for the Commission.



[5] *See* 47 U.S.C. §§ 225(a)(3), (b)(1).

The FCC's Appropriations figure of $339 million in the chart above reflects the authority for the Commission to collect regulatory fees. The $200 million appropriation in the chart above is a part of the Coronavirus, Aid, Relief, and Economic Security (CARES) Act to support health care providers "to address coronavirus by providing telecommunications services, information services, and devices necessary to enable the provision of telehealth services" in response to the coronavirus disease 2019 (COVID-19) pandemic.[6] The $133 million for the FCC's Auctions program in the chart above is collections from auction revenues used to offset the cost of performing auctions-related activities.

Payment Integrity

In accordance with the Improper Payments Information Act (IPIA) of 2002, as amended by the Improper Payments Elimination and Recovery Act (IPERA) of 2010, Improper Payments Elimination and Recovery Improvement Act (IPERIA) of 2012, and Payment Integrity Information Act (PIIA) of 2019, the Commission has made significant efforts to implement policies and procedures to strengthen internal controls that prevent improper payments. In addition, the Commission oversees a payment recapture program that includes both audits and transaction testing to search for and recapture overpayments. Section 3 of the AFR provides further details on these efforts. Additional information reported by the Commission on Payment Integrity can also be found on https://paymentaccuracy.gov/.

Performance Highlights

CLOSING THE DIGITAL DIVIDE

Develop a regulatory environment to encourage the private sector to build, maintain, and upgrade next-generation networks so that the benefits of advanced communications services are available to all Americans. Where the business case for infrastructure investment doesn't exist, employ effective and efficient means to facilitate deployment and access to affordable broadband in all areas of the country.

A key priority for the FCC is to close the digital divide in rural America. The FCC continued to use auction mechanisms as well as other funding models to increase broadband service in rural areas.

The FCC established the Rural Digital Opportunity Fund to fund the deployment of high-speed broadband networks in rural America. Through a two-phase reverse auction mechanism, the FCC will direct up to $20.4 billion over ten years to finance up to gigabit speed broadband networks in unserved rural areas. The FCC adopted procedures for the first phase of Auction 904 which will award up to $16 billion in support over ten years to deploy broadband networks to up to 10.25 million currently unserved Americans. Phase II of the auction will make available at least $4.4 billion, in addition to unallocated funds from Phase I, to target partially served areas using broadband coverage data being developed in the Commission's Digital Opportunity Data Collection proceeding.

The FCC established procedures for its investment of up to $691.2 million over the next ten years to support the deployment of advanced broadband and voice networks to the Commonwealth of Puerto Rico and the U.S. Virgin Islands. This second stage of the FCC's rollout of support to Puerto Rico and the U.S. Virgin Islands allocated up to $500 million over ten years in fixed broadband support through the Uniendo a Puerto Rico Fund and up to $180 million over ten years for fixed broadband support for the Connect USVI Fund.

The FCC also approved $258.3 million in funding over three years to expand, improve, and harden mobile broadband networks in Puerto Rico and the U.S. Virgin Islands. In Stage 2 of the Uniendo a Puerto Rico

[6] *See* CARES Act, Pub. L. No. 116-136, Stat. 281 (2020).

Fund and Connect USVI Fund, the FCC authorized $254.3 million to three carriers serving Puerto Rico and $4 million to one carrier serving the U.S. Virgin Islands. This included approximately $59.5 million in funding for deployment of 5G networks in Puerto Rico and the U.S. Virgin Islands, the first universal service funding the Commission has awarded anywhere in the country targeted for 5G deployment.

The FCC sought comment on establishing the 5G Fund for Rural America, proposing to distribute up to $9 billion through the USF across rural America for 5G wireless broadband connectivity. The Notice of Proposed Rulemaking (NPRM) proposed making up to $8 billion available in Phase I to support deployment of 5G networks in rural areas unlikely to see deployment without this support or as part of the T-Mobile transaction deployment commitments. The second phase would target at least $1 billion in support to bring wireless connectivity to harder to serve and higher cost areas to facilitate adoption of connected precision agriculture technologies. The 5G Fund for Rural America would use a competitive reverse auction format to allocate funding. The proposed 5G Fund budget also includes $680 million reserved to support 5G networks serving Tribal lands for Phase I.

The Connect America Fund Phase II Auction in 2018 allocated $1.488 billion in support over the next ten years to expand broadband to more than 700,000 unserved rural homes and small businesses in 45 states. As of the end of FY 2020, the FCC has authorized fifteen waves of funding with total authorized funding of over $1.47 billion to expand connectivity to 702,745 homes and businesses nationwide. In addition, the FCC authorized roughly $63 million to connect 46,294 locations under the FCC's CAF II partnership with New York's NY Broadband program as of September 30, 2020.

Funding waves authorized in FY 2020, each over ten years, included:

- More than $240 million to expand rural broadband deployment in Arkansas, Illinois, Indiana, Kansas, Massachusetts, Missouri, New York, Oklahoma, and Wyoming and connect more than 100,000 unserved rural homes and businesses. The funding authorized in New York was the third wave of matching funds provided through the FCC's partnership with the state's New NY Broadband Program.
- Nearly $89.2 million to expand broadband to more than 123,000 unserved rural homes and businesses across 21 states. A satellite provider is receiving $87.1 million over ten years to offer service to more than 121,700 remote and rural homes and businesses in 17 states.
- Over $61.8 million to expand broadband to nearly 22,000 unserved rural homes and businesses in 14 states, including nearly $29.6 million to offer service to nearly 9,100 rural homes and businesses in Virginia and Tennessee, nearly $12.2 million over ten years to offer service to 4,752 homes and businesses in Wyoming, over $6.8 million to offer service to 1,910 homes and businesses in central Washington state, and over $4 million to offer service to 1,256 homes and businesses in Montana.

The FCC adopted rules for the improved collection and mapping of broadband availability data through the Digital Opportunity Data Collection to better identify connectivity gaps across the country. The Order implemented key provisions of the Broadband Deployment Accuracy and Technological Availability (DATA) Act.

The FCC's *2020 Broadband Deployment Report* showed that the number of Americans lacking access to fixed terrestrial broadband service at 25/3 Mbps continued to decline, decreasing by more than 14% in 2018 and more than 30% over the course of 2017 and 2018. The number of Americans without access to 4G Long Term Evolution (LTE) mobile broadband with a median speed of 10/3 Mbps declined approximately 54% between 2017 and 2018. More than 85% of Americans now have access to fixed terrestrial broadband service at 250/25 Mbps, a 47% increase since 2017, with the number of rural Americans having access to 250/25 Mbps fixed terrestrial broadband service more than tripling between 2016 and 2018.

The FCC's Wireline Competition Bureau directed the Universal Service Administrative Company (USAC), which administers the FCC's Rural Health Care (RHC) Program, to carry forward up to $197.98 million in unused funds from prior funding years to the extent necessary to satisfy funding year 2020 demand for the Program. Moreover, during the last four years, the annual funding cap for the RHC program has increased from just above $400 million to over $600 million.

The FCC proposed procedures to protect federal funds from misuse by providing the agency with broader and more flexible authority to promptly remove bad actors from participation in the Universal Service Fund (USF), the Telecommunications Relay Services (TRS) Fund, and the National Deaf-Blind Equipment Distribution Program. The proposal would align FCC rules with the Office of Management and Budget's *Guidelines to Agencies on Government Debarment and Suspension*.

The FCC approved additional steps to improve the integrity, effectiveness, and efficiency of its Lifeline program. The Report and Order focused on strengthening the Lifeline's program's enrollment, recertification, and reimbursement processes so that limited USF dollars are directed only toward qualifying low-income consumers.

The FCC, U.S. Department of Health and Human Services (HHS), and U.S. Department of Agriculture (USDA) signed a Memorandum of Understanding to work together on the Rural Telehealth Initiative, a joint effort to collaborate and share information to address health disparities, resolve service provider challenges, and promote broadband services and technology to rural areas in America.

PROMOTING INNOVATION

Foster a competitive, dynamic, and innovate market for communications services through policies that promote the introduction of new technologies and services. Ensure that the FCC's actions and regulations reflect the realities of the current marketplace, promote entrepreneurship, expand economic opportunity, and remove barriers to entry and investment.

The FCC took several actions to increase spectrum flexibility for use in 5G deployment as part of its comprehensive strategy to Facilitate America's Superiority in 5G Technology (the 5G FAST Plan):

- Auction 103, the incentive auction of Upper Microwave Flexible Use Service (UMFUS) licenses in the Upper 37 GHz, 39 GHz, and 47 GHz bands, raised a total of $7,558,703,201 in net bids ($7,569,983,122 in gross bids), with 28 bidders winning a total of 14,142 licenses. Based on these bids, the incentive payments for existing licensees total $3,084,172,898, and the net proceeds for the auction total $4,474,530,303. The incentive auction offered licenses made available because existing 39 GHz licensees committed to relinquish their 39 GHz spectrum usage rights in exchange for incentive payments determined by the results of Auction 103.
- The FCC conducted Auction 105, the auction of 70 megahertz of Priority Access Licenses (PALs) in the 3550-3650 MHz band. The auction made available the greatest number of spectrum licenses ever in a single FCC auction. The 3.5 GHz band holds the potential to be prime mid-band spectrum for 5G services, as well as the Internet of Things and other advanced spectrum-based services. Gross proceeds reached $4,585,663,345 and a total of 228 bidders won 20,625 of 22,631, or more than 91.1%, of available licenses.
- The FCC established final application and bidding procedures for Auction 107, the auction of 280 megahertz of new flexible-use overlay licenses for the 3.7-3.98 GHz portion of the C-band. This auction, which is scheduled to begin on December 8, will offer 5,684 new flexible-use overlay licenses based on Partial Economic Areas (PEAs) for spectrum in this band, which holds the potential to be prime spectrum for 5G services. Previously, the Commission adopted rules for the C-band (3.7-4.2 GHz), which allocated the lower 280 megahertz (3.7-3.98 GHz band) for flexible terrestrial wireless services (with a 20-megahertz guard band (3.98-4.0 GHz)) and required existing

satellite operators to repack their operations from the band's entire 500 megahertz into the upper 200 megahertz (4.0-4.2 GHz).

- The FCC announced that the post-incentive auction transition successfully met the deadline for television stations to move off their pre-auction channel assignments. All of the low-band airwaves sold in the broadcast incentive auction became available for newly licensed 600 MHz band spectrum used to provide wireless mobile broadband services, including 5G, across the country.
- The FCC proposed to make 100 megahertz of mid-band spectrum in the 3.45-3.55 GHz band available for 5G deployment across the contiguous United States. The Commission also adopted rules for, and proposed additional changes to, the broader 3.3-3.55 GHz band, marking an important step toward satisfying Congress's directive in the MOBILE NOW Act to make new spectrum available for flexible use. The adopted rules remove the secondary, non-federal allocations from the 3.3-3.55 GHz band and relocate non-federal radiolocation licensees to the 2.9-3.0 GHz band, to continue operating there on a secondary basis to federal operations. The Order also allows amateur licensees to individually determine appropriate alternative spectrum from existing available spectrum allocations. In a Further Notice of Proposed Rulemaking (FNPRM), the Commission proposed allocating the 3.45-3.55 GHz spectrum band for flexible-use service and sought comment on an appropriate regime to coordinate non-federal and federal use.
- The FCC approved a Declaratory Ruling regarding state and local government review of modifications to existing wireless infrastructure in order to facilitate the deployment of 5G networks. The ruling clarified how certain aspects of proposed modifications affect eligibility for streamlined state and local government review.
- The FCC sought comment on making more efficient use of additional millimeter-band spectrum resources, including for the provision of wireless backhaul for 5G and deployment of broadband services to aircraft and ships. The NPRM sought comment on various proposals for new and innovative commercial uses of the 70/80/90 GHz bands.
- The 2.5 GHz Rural Tribal Priority Window presented an opportunity for eligible Tribal entities to obtain overlay licenses for prime mid-band spectrum covering rural Tribal lands to help address their connectivity needs and close the digital divide. Any remaining unassigned 2.5 GHz spectrum will be made available by auction to facilitate the rapid deployment of wireless networks across America.
- The FCC approved, with conditions, the transfer of control applications filed by T-Mobile and Sprint, finding that the transaction would help close the digital divide and advance United States leadership in 5G, the next generation of wireless connectivity. T-Mobile and Sprint committed within three years to deploy 5G service to cover 97% of the American people, and within six years to reach 99% of all Americans. This commitment includes deploying 5G service to cover 85% of rural Americans within three years and 90% of rural Americans within six years.

The FCC took action to encourage innovation of new technologies and services in unlicensed spectrum:

- The FCC adopted rules making 1,200 megahertz of spectrum in the 6 GHz band (5.925–7.125 GHz) available for unlicensed use. These rules will usher in Wi-Fi 6, the next generation of Wi-Fi, and play a major role in the growth of the Internet of Things.
- The Commission proposed to repurpose 45 megahertz of spectrum in the 5.850-5.895 GHz band for unlicensed operations, retain 30 megahertz of spectrum in the 5.895-5.925 GHz band for the Intelligent Transportation Systems (ITS) service, and require the transition of the ITS radio service standard from Dedicated Short-Range Communications technology to Cellular Vehicle-to-Everything technology for at least 20 megahertz of that spectrum.
- The FCC proposed updates to its White Space device rules to allow for more robust service and efficient use of White Space devices, particularly in rural areas.

The FCC adopted rules permitting expanded use of 50 megahertz of mid-band spectrum in the 4.9 GHz (4940-4990 MHz) band that is currently underused. Under the new rules, states are allowed to lease this spectrum to third parties to boost wireless broadband, improve critical infrastructure monitoring, and facilitate public safety use cases. In an FNPRM, the FCC proposed a new state-based licensing regime for public safety operations in the band, to complement the new leasing regime.

The FCC made six megahertz of spectrum available for the development of critical wireless broadband technologies and services in the 900 MHz band, while reserving the remaining four megahertz of spectrum for continued narrowband operations. This transition will enable next generation, mission-critical applications not available via current narrowband systems and help meet evolving technological needs for industries such as utilities.

The FCC sought comment on technical rule changes to facilitate the use of the next generation television broadcast standard, also known as ATSC 3.0. The proposed rules would permit greater flexibility for broadcasters to use distributed transmission systems (DTS) as they deploy ATSC 3.0 in their networks.

The FCC proposed giving AM stations the flexibility to voluntarily adopt all-digital transmission and establishing operating parameters for all-digital stations to minimize any risk of interference.

The FCC facilitated the continued deployment of satellite earth stations in motion, or ESIMs, earth stations used to provide satellite-based communications services on ships, airplanes, and vehicles. The Order expanded the frequency bands available to moving earth stations, promoted operational flexibility, and advanced regulatory consistency between ESIMs communicating with fixed satellite service systems in geostationary satellite orbit and those in non-geostationary satellite orbit.

The FCC updated its satellite rules on orbital debris mitigation by improving the specificity and clarity of rules that require disclosure of debris mitigation plans by satellite companies. Satellite applicants will also have new disclosure requirements.

The FCC adopted improvements to the transparency and timeliness of the cross-agency review process for applications from companies with foreign ownership seeking to participate in the U.S. telecommunications market.

PROTECTING CONSUMERS AND PUBLIC SAFETY

Develop policies that promote the public interest by providing consumers with freedom from unwanted and intrusive communications, improving the quality of communications services available to those with disabilities, and protecting public safety.

The FCC undertook a number of actions in response to the COVID-19 pandemic. These actions included funding efforts through the Coronavirus Aid, Relief, and Economic Security (CARES) Act, expedited processes and procedures, waivers, and extensions. As part of the CARES Act, Congress appropriated $200 million to the FCC to support health care providers' use of telehealth services in combating the COVID-19 pandemic. Just four days after the CARES Act was signed into law, the Commission adopted rules to implement the program and began accepting applications on April 13. All funds were committed by July 8—less than four months after enactment of the CARES Act—aiding patients, hospitals, and healthcare providers in some of the hardest-hit areas of the country. The funded 539 worthy applications from health care providers in 47 states plus Washington, D.C. and Guam, including, among others, the Navajo Nation Department of Health in Window Rock, Arizona.

The FCC approved a Declaratory Ruling confirming that the COVID-19 pandemic constituted an "emergency" under the Telephone Consumer Protection Act (TCPA). Consequently, public health authorities including hospitals, health care providers, state and local health officials, and other government officials could lawfully communicate information about the coronavirus as well as mitigation measures without violating federal law.

The FCC and the Department of Education undertook efforts to promote the use of $16 billion in funding from the CARES Act's Education Stabilization Fund for remote learning. The agencies worked with governors, states, and local school districts to leverage funding to help students learning from home during the COVID-19 pandemic.

The FCC partnered with the Institute of Museum and Library Services to promote the use of $50 million in funding from the CARES Act to address the digital divide during the COVID-19 pandemic. Additionally, $15 million of this funding will be awarded through grants to libraries and museums, as well as Tribes and organizations serving and representing Native Hawaiians.

The FCC received commitments from over 800 companies and associations ensuring that Americans would not lose their broadband or telephone connectivity as a result of the COVID-19 pandemic. The Keep Americans Connected Pledge began on March 13, 2020 and was extended to June 30, 2020. Providers taking the pledge committed to (1) not terminate service to any residential or small business customers because of their inability to pay their bills due to disruptions caused by the COVID-19 pandemic; (2) waive any late fees that any residential or small business customers incur because of their economic circumstances related to the COVID-19 pandemic; and (3) open Wi-Fi hotspots to any American who needs them.

The FCC issued a number of waivers, extensions, and other actions in response to the COVID-19 pandemic. These included:

- A process developed in coordination with the Advisory Council on Historic Preservation to expedite historic preservation review of communications infrastructure projects that respond to the COVID-19 pandemic. FCC licensees may also request emergency authorization if a project addresses public safety or critical infrastructure initiatives prioritized by government or public safety authorities, brings coverage to meet the needs of unserved and underserved areas due to COVID-19 effects, or relieves network congestion due to COVID-19 effects.
- Additional relief to assist Rural Health Care (RHC) Program participants in addressing the COVID-19 public health emergency. The FCC: (1) issued an extension of the RHC Program application filing window; (2) eased competitive bidding requirements for health care providers with expiring evergreen contracts; and (3) provided an extension of several procedural deadlines.
- Temporary waiver and extension of several E-Rate filing and service implementation deadlines for schools and libraries to provide relief to E-Rate program participants affected by the COVID-19 pandemic. The FCC also directed USAC to provide all program participants an automatic 30-day extension to respond to information requests related to pending appeals, invoices, FCC Form 500 requests, and audits.
- An Order to ease the Lifeline program application and enrollment process during the COVID-19 pandemic for consumers who reside in rural areas on Tribal lands and qualify for Lifeline benefits.
- Temporary waivers of certain requirements to ensure the uninterrupted availability of TRS during the COVID-19 pandemic. The FCC also temporarily waived two additional TRS rules to facilitate the ability of Internet Protocol Relay (IP Relay) service providers to offer service from home workstations during the COVID-19 pandemic and for registered Video Relay Service (VRS) users to make calls from outside the United States.
- Grant of a waiver request by a health care company to allow for the marketing, operation, and importation of medical devices that have not yet received equipment authorization under the Commission's rules. The FCC also waived certain part 95 rules to effectuate the request.
- Waiver of the broad outreach requirements of the FCC's Equal Employment Opportunity (EEO) recruitment rules in limited circumstances relating to the COVID-19 pandemic.

- Grant of temporary access, called Special Temporary Authority (STA), to 5.9 GHz spectrum for more than 100 Wireless Internet Service Providers (WISPs) serving largely rural and suburban communities.
- A temporary, limited waiver to TV broadcasters to enable them to more easily air live and taped same-day local content services during time slots regularly dedicated to children's programming.
- Waiver of the sponsorship identification requirements in limited circumstances relating to the COVID-19 pandemic, (until June 30, 2020, and subsequently extended through August 31, 2020).
- Waiver of the Lifeline program's usage requirements and general de-enrollment procedures.
- Waiver of the Commission's gift rules in the Rural Health Care (RHC) and E-Rate programs through September 30, 2020, to assist rural health care providers and schools and libraries affected by the COVID-19 pandemic.
- Temporary waiver of the Lifeline program's recertification and reverification requirements to ease burdens on Lifeline subscribers during the COVID-19 pandemic. The FCC also temporarily waived for 60 days the *2019 Lifeline Order*'s requirement that all eligible telecommunications carrier (ETC) enrollment representatives register with USAC.
- Temporary waiver to allow competitive ETCs to use their high-cost legacy support from USF to focus on hard-hit areas in response to the COVID-19 pandemic.
- Grant of Temporary Spectrum Access to support New York City Fire Department Communications during the COVID-19 pandemic.
- A conditional waiver to allow a company to begin offering wireless medical telemetry services (WMTS) in the 1.4 GHz band to help ensure that traditional health care facilities have more spectrum capacity to meet additional demands and enable the development and use of monitoring services in non-traditional settings outside hospitals.
- A waiver to allow the importation, marketing, and operation of certain medical devices from new suppliers for use in healthcare facilities.
- A temporary waiver of access arbitrage rules to a telecommunications company that carries traffic for two of the nation's largest conference calling providers. The massive increase in conference calls made by consumers would have likely resulted in the telecommunications company being deemed an "access-stimulating" carrier under the FCC's rules.
- Grant of an emergency STA request to use unassigned 2.5 GHz spectrum for the provision of wireless broadband service to the Zuni tribe in New Mexico due to the increased demand from the COVID-19 pandemic. The FCC also granted an STA to the Navajo Nation to use unassigned spectrum in the 2.5 GHz band to provide wireless broadband service over its reservation, within parts of Arizona, New Mexico, and Utah.
- Waiver of certain fees from rural phone and broadband providers by customers experiencing economic challenges as a result of the COVID-19 pandemic, including late payment, installation, and cancellation fees for consumers signing up for, or looking to switch providers of, Digital Subscriber Line (DSL) broadband services to work from home or access remote learning.

The FCC adopted rules and provided additional information and guidance for its three-year Connected Care Pilot Program, which will provide up to $100 million of support from the USF to help defray health care providers' costs of providing connected care services and to assess how the USF can be used to support telehealth. The Pilot Program will provide universal service support for 85% of the cost of eligible services and network equipment, including: (1) patient broadband Internet access services; (2) health care provider broadband data connections; (3) other connected care information services; and (4) certain network equipment.

The FCC continued to act aggressively to target and eliminate unlawful robocalls:

- The FCC adopted rules requiring implementation of caller ID authentication using technical standards known as "STIR/SHAKEN" on IP-based phone networks by June 30, 2021. These rules protect consumers against malicious caller ID "spoofing," used to trick consumers into answering their phones. STIR/SHAKEN enables phone companies to verify that the caller ID information transmitted with a call matches the caller's phone number. Subsequently, the FCC adopted further rules to promote implementation of the STIR/SHAKEN framework, requiring voice service providers to either upgrade their non-IP networks to IP and implement STIR/SHAKEN, or work to develop a non-IP caller ID authentication solution. They also require intermediate providers to implement STIR/SHAKEN so that IP calls retain caller ID authentication throughout the call path. The new rules prohibit carriers from adding a line item to the bills of consumers and small businesses for caller ID authentication technology.

- The FCC adopted rules strengthening enforcement against illegal robocallers by implementing the Pallone-Thune Telephone Robocall Abuse Criminal Enforcement and Deterrence Act (TRACED Act). The Order ended the practice of warning most robocallers before issuing penalties, extended the statute of limitations for robocall violations to four years, and increased the maximum fines for intentional robocall violations. The FCC also adopted rules that offer companies two safe harbors from liability for the unintended or inadvertent blocking of wanted calls, eliminating a concern that kept some companies from implementing robust robocall blocking efforts.

The FCC adopted rules to establish 988 as the new, nationwide, 3-digit phone number for Americans in crisis to connect with suicide prevention and mental health crisis counselors. The new rules provide for a two-year transition and apply to all telecommunications carriers as well as all interconnected and one-way VoIP service providers.

The FCC took steps toward reforming rates and charges for the inmate calling services (ICS) within its jurisdiction. The FCC found that ICS providers are generally subject to the FCC's rules for ancillary service charges and cannot charge incarcerated individuals and their families ancillary service charges other than the types allowed by the Commission's rules and cannot charge ancillary service fees above the Commission's applicable fee caps.

The FCC barred the use of its $8.2 billion a year in USF support to purchase equipment and services from companies that pose a national security threat. The Order initially designated two companies covered by this rule and established a process for designating additional covered companies in the future. The designation of Huawei and ZTE as companies covered by this rule was subsequently finalized.

The FCC began integrating portions of the Secure and Trusted Communications Networks Act (Secure Networks Act) into its existing supply chain rulemaking proceeding. The Commission adopted a ban on the use of USF support to purchase, obtain, or maintain any equipment or services from companies posing a national security threat to communications networks or the communications supply chain.

The FCC proposed modernizing its priority services rules to cover priority treatment of voice, data, and video services for emergency personnel and removing outdated requirements that may impede the use of Internet Protocol (IP)-based technologies.

The FCC affirmed rules to help first responders quickly locate people who call 911 from wireless phones in multi-story buildings in the nation's largest markets and extended those requirements nationwide. The rules require wireless providers to transmit to 911 call centers information on the location of wireless 911 calls and obligate wireless providers to meet location accuracy benchmarks, including providing the caller's dispatchable location (street address and apartment number) or coordinate-based vertical ("z-axis") location.

The FCC proposed expanding its video description rules to ensure that more video programming is accessible to individuals who are blind or visually impaired.

The FCC authorized compensating video relay service (VRS) providers for calls handled by sign language interpreters working from home. This initiative aims to expand the number of qualified individuals willing to work as communications assistants to facilitate video relay service.

The FCC proposed updating its hearing aid compatibility rules to incorporate the latest American National Standards Institute (ANSI) standard and proposed removing unnecessary or superseded hearing aid compatibility rules.

The FCC approved a Report and Order to ensure that high-quality, functionally equivalent telephone captioning service is available through IP CTS in an efficient and cost-effective manner to individuals with disabilities. The Order reduced TRS Fund compensation rates for IP CTS which is expected to save the TRS Fund approximately $200 million. A FNPRM proposed more precise measurements of the quality of telephone captioning and on the appropriate entity to conduct such assessments.

The FCC's Enforcement Bureau undertook actions with respect to robocalls, including:

- A proposed $225 million fine against health insurance telemarketers for apparently making approximately 1 billion illegally spoofed robocalls on behalf of clients that sold health insurance plans and knowingly called consumers on the Do Not Call list.
- A proposed a $9,997,750 fine against a telemarketing company for apparently making more than 47,000 unlawful spoofed robocalls over a two-day period.
- A proposed a $12,910,000 fine against an individual for apparently using caller ID spoofing in thousands of robocalls that targeted a community grappling with the recent murder of a local woman, threatened a journalist and newspaper, and attempted to influence a jury.

The FCC undertook a number of enforcement actions and investigations in fulfilling its mission to enforce the Commission's rules and protect consumers from illegal or unfair practices. Results of those actions and investigations included:

- A proposed forfeiture of $512,228 against each of 18 stations in eight station groups for failing to negotiate for retransmission consent in good faith, affirming a Media Bureau finding.
- A proposed fine of $163,912 against an Internet service provider for apparently reporting inaccurate information by significantly inflating its broadband subscription numbers, failing to file required deployment data, and making false statements to Commission investigators.
- A Consent Decree, in which a broadcaster agreed to pay a $48 million civil penalty and abide by a strict compliance plan to close three open investigations into the company's disclosure of information relating to a proposed acquisition of stations. The agreement also closed investigations into whether the company met its obligations to negotiate retransmission consent agreements in good faith, and its failure to identify the sponsor of content it produced and supplied to both its own and unowned television stations. This was the largest civil penalty involving a broadcaster in the agency's 86-year history.
- A fine of $2,861,128 for a marketer of drone transmitters for not complying with FCC licensing rules by transmitting in unauthorized radio frequency bands and, in some cases, operating at excessive transmission power levels.
- A $5 million settlement and extensive compliance plan with a voice over Internet provider (VoIP) regarding its failure to report its interstate revenues and contribute to USF.
- A $31 million settlement with a communications company for violating competitive bidding and rate rules and overbilling the FCC's Rural Health Care Program.
- A $1,130,000 penalty and an agreement to settle an investigation into the monitoring practices of lights on television towers.
- Settlements of $400,000 and $175,000, respectively, with two telecommunications companies to conclude investigations into violations of FCC rules in connection with a multi-state 911 outage.

- A settlement with a company, terminating an investigation into potential violations of the FCC's Rural Health Care Program rules. The company acknowledged that it failed to determine the rural rates charged to non-profit health care and social services providers serving rural and remote Alaskan Native communities. The company agreed to relinquish any claims to $772,307 in USF support payments and to pay back $227,693 to the USF.
- A settlement of $100,000, concluding an investigation into a company's transmission of uplink data to one of its small satellites on a radio frequency not authorized for that use.
- Settlements by the FCC's Media Bureau with six major radio group owners that will ensure compliance with rules requiring that radio stations upload records of requests for the purchase of political broadcast time to their online public inspection files.
- A proposed $6,013,000 fine against a prepaid wireless provider offering Lifeline service for apparent violations of the Commission's Lifeline program rules by apparently claiming federal Lifeline funding for customers who were not actually eligible for the program.
- A proposed a forfeiture of $685,338 to a company for marketing 32 models of apparently noncompliant wireless microphones, some that threatened public safety operations, in violation of the Act and the Commission's rules.
- Proposed fines of $91 million, more than $57 million, more than $48 million, and more than $12 million against the nation's four largest wireless carriers for apparently selling access to their customers' location information without taking reasonable measures to protect against unauthorized access to that information.

The FCC adopted rules to broaden the support mechanism for Internet Protocol Captioned Telephone Service (IP CTS) and replace interim funding structures. The Order incorporated intrastate revenues into the calculation of required contributions from telecommunications providers to the TRS Fund to support IP CTS.

REFORMING THE FCC'S PROCESSES

Modernize and streamline the FCC's operations and programs to increase transparency, improve decision-making, build consensus, reduce regulatory burdens, and simplify the public's interactions with the agency.

The FCC approved an Order streamlining the administrative hearing process by amending rules to: (1) codify and expand the use of written testimony and documentary evidence in lieu of live testimony and cross-examination; (2) authorize Commission staff to act as a case manager to supervise development of the written hearing record when the Commission designates itself as the presiding officer at a hearing; and (3) dispense with the preparation of an initial opinion whenever the record of a proceeding can be certified to the Commission for final decision.

The FCC eliminated three TRS rules that are no longer necessary due to changes in technology and voice communications services. The Order repealed the "equal access" rule requiring that TRS users be allowed to choose a carrier for long distance TRS calls, determined that alternative billing options (e.g., collect and credit card billing) are no longer necessary for TRS, and removed the Federal Register publication requirement for applications for certification of state TRS programs.

The FCC updated its leased access rate rules by implementing a tier-based leased access rate calculation to give a more accurate approximation of the value of a particular channel and reflect regulatory changes that have occurred.

The FCC adopted rules for regulatory fees across satellite operators to ensure that domestic and foreign licensed space stations are responsible for the same regulatory fees by assessing fees on non-U.S. licensed commercial space stations that are granted access to the U.S. market by the FCC. Previously, foreign-licensed space stations with access to the U.S. market were not required to pay regulatory fees to the FCC.

The FCC proposed eliminating or reducing outdated phone company network unbundling and resale requirements that may be unnecessary for—and detrimental to—facilities-based competition. The NPRM sought comment on proposals to eliminate and/or reduce requirements to provide unbundled network elements and proposed to grant non-price cap incumbent LECs relief from the requirement.

The FCC proposed to deregulate and detariff the end user interstate access charges currently included on consumers' and small businesses' local telephone bills. The proposal would also prohibit carriers from separately listing these charges on customers' bills and thereby make it easier for consumers to understand their telephone bills and compare prices among voice service providers.

The FCC updated rules governing tariff filings and recognized that the ability of carriers and interested parties to submit and view information electronically has obviated the need for tariff filing rules adopted decades ago.

The FCC accelerated the conclusion of the 800 MHz rebanding program by implementing streamlined rules and procedures to reduce administrative costs. The Order no longer requires the Transition Administrator to furnish the Commission with an annual audit or conduct other financial reconciliation of rebanding expenditures.

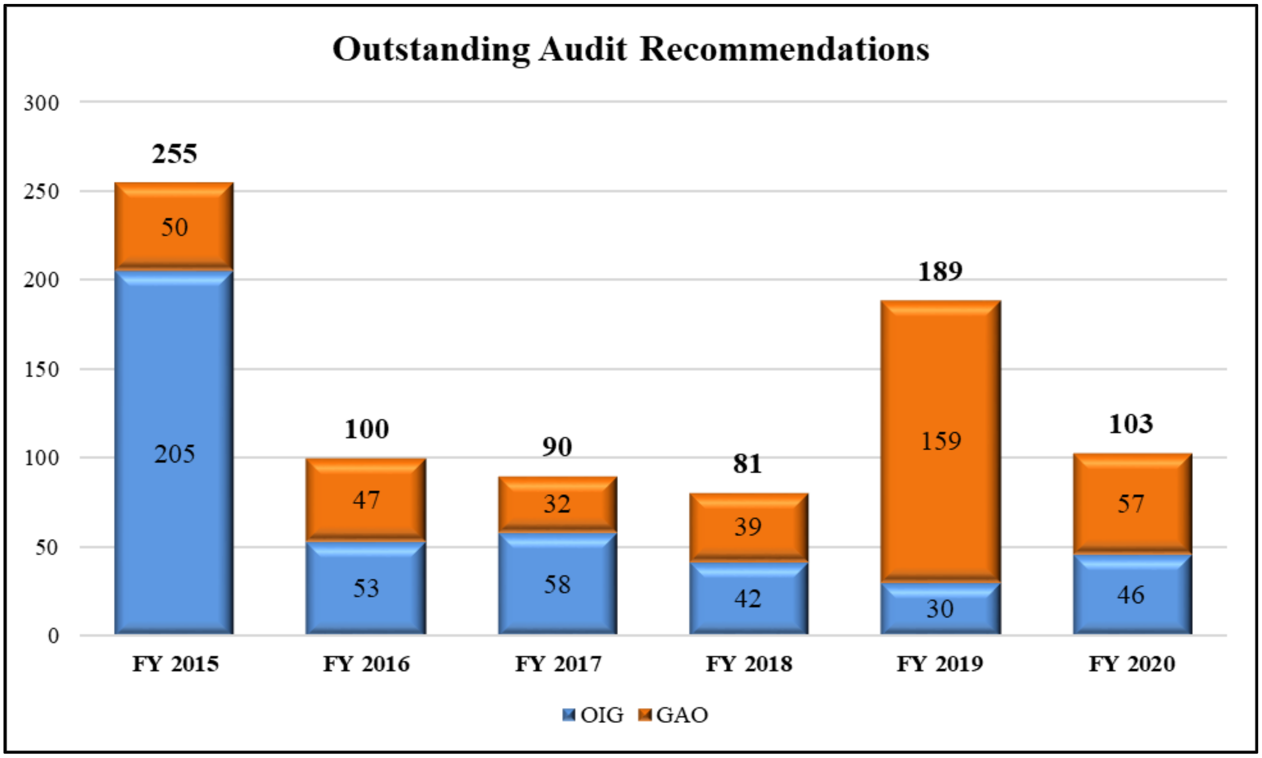
The FCC continued its Modernization of Media Regulation Initiative, to reduce unnecessary regulation in the media marketplace by identifying rules that are outdated, unnecessary, or unduly burdensome. This effort included the following proceedings by the FCC:

- Terminated a proceeding on the adoption of new regulations for "navigation devices"—devices consumers use to access multichannel video programming and other services offered over multichannel video programming networks—and eliminated outdated CableCARD support and reporting requirements.
- Eliminated the radio duplication rule for both the AM and FM services.
- Eliminated sections of the Commission's rules regarding access to FM and TV broadcast antenna sites.
- Implemented a streamlined and standardized set of requirements for broadcast applicants to meet their local public notice obligations.
- Modernized notification rules for cable and satellite TV providers by transitioning certain notices to broadcast TV stations from paper to electronic delivery.
- Modernized carriage election notice rules with respect to certain television broadcast stations and open video system (OVS) operators.
- Modernized the Low Power FM Service (LPFM) technical rules to provide more regulatory flexibility for licensees, improve their service, and remove regulatory burdens.
- Eliminated the requirement that cable operators maintain records in their online public inspection files regarding their interests in video programming services and eliminated the related requirement that cable operators maintain in their online public inspection files information regarding their carriage of these services on cable systems they own.
- Modernized rules concerning notices that cable operators must provide to subscribers and local franchise authorities (LFAs) about service and rate changes. When service changes, such as the removal of a channel, occur due to retransmission consent or program carriage negotiations that fail within the last 30 days of a contract, cable operators must provide notice to subscribers "as soon as possible," rather than 30 days in advance.

- Eliminated the requirement that cable operators subject to effective competition provide 30 days' advance notice to LFAs of rate or service changes but retained a narrower notification requirement that applies only to rate-regulated cable operators.
- Eliminated the requirement that cable operators provide notice of changes to the information required in certain annual notices, finding that this information is available on the Internet or unlikely to be relevant to current subscribers.
- Sought comment on modernizing procedures for determining whether a television broadcast station is "significantly viewed" in a community outside of its local television market.
- Sought comment on changes to rules governing the resolution of program carriage disputes between video programming vendors and multichannel video programming distributors.

Overall Status of Audit Recommendations

The chart below shows the number of audit recommendations outstanding, both public and non-public, from various audits conducted by FCC's Office of Inspector General (OIG) and the Government Accountability Office (GAO) as of September 30, 2020. The numbers shown below exclude those recommendations for which the Commission has already submitted information to GAO and OIG requesting closure of the recommendation. The count also excludes those recommendations that the Commission has determined to be closed as not implemented. In FY 2020, the Commission closed 155 outstanding recommendations, received 69 new recommendations, and finished the fiscal year with a total of 103 open recommendations. Please note in FY 2019 there was a large number of new recommendations received just before the end of the fiscal year. This led to a spike in open recommendations in FY 2019. As can be seen by the reduction of open recommendations at the end of fiscal year 2020, the FCC has been actively working to close these recommendations as quickly as possible.



Management Assurances

MANAGEMENT ASSURANCES PURSUANT TO THE FEDERAL MANAGERS' FINANCIAL INTEGRITY ACT OF 1982 (FMFIA)

The Federal Managers' Financial Integrity Act of 1982 (FMFIA) establishes overall requirements with regard to internal controls. FMFIA requires agencies to establish controls that reasonably ensure that: (i) obligations and costs are in compliance with applicable laws; (ii) funds, property, and other assets are safeguarded against waste, loss, unauthorized use, or misappropriation; and (iii) revenues and expenditures applicable to agency operations are properly recorded and accounted for to permit the preparation of accounts and reliable financial and statistical reports, and to maintain accountability over assets. Pursuant to FMFIA's requirements, agencies must annually evaluate their system of internal controls and report on the results of those evaluations through management assurance statements.

In accordance with Office of Management and Budget (OMB) guidance related to FMFIA, OMB Circular A-123, *Management's Responsibility for Enterprise Risk Management and Internal Control*, the Commission maintains internal controls for financial and management reporting that provide reasonable assurance that the consolidated financial statements fairly present information related to assets, liabilities, and net position and do not contain material misstatements. Transactions are executed in accordance with budgetary and financial laws, consistent with the Commission's statutory requirements, and are recorded in accordance with Federal accounting standards. Additionally, assets are properly acquired, used, and safeguarded to deter theft, accidental loss or unauthorized disposition, and fraud. Furthermore, the Commission's internal controls provide for the reliability and completeness of its financial and performance data.

The FY 2019 auditors' report identified a significant deficiency in Universal Service Fund Budgetary Accounting, and a significant deficiency in Information Technology controls at both the FCC and USAC. During FY 2020, the FCC worked to develop corrective action plans to remediate these findings. First, with regard to addressing the significant deficiency for Universal Service Fund Budgetary Accounting, the Commission made great progress and resolved this significant deficiency in FY 2020. Second, with respect to the significant deficiency related to Information Technology, the Commission has worked diligently in FY 2020 to develop corrective action plans to fully address the auditors' recommendations and remediate this finding but more remains to correct this issue. The Commission will make every effort in FY 2021 to implement corrective action plans for each of the recommendations associated with these findings to avoid any repeat findings in these areas.

Status of Internal Controls – Section 2 of FMFIA

During FY 2020, the Commission continued its efforts to improve and strengthen its internal controls over operations and financial reporting by building upon continuing improvements to its risk assessment processes. Beginning in FY 2015, the Commission implemented risk assessment tools to update its pre-existing processes for internal control evaluation. The FCC made this improvement both at the FCC and at its reporting components, including USF and TRS. The FCC's updated risk assessment process integrates the latest versions of the Government Accountability Office's (GAO), *Standards for Internal Control in the Federal Government* (Green Book), as well as OMB's Circular A-123, *Management's Responsibility for Enterprise Risk Management and Internal Control*. Utilizing GAO's Green Book as a blueprint, the FCC implemented an entity level risk assessment tool that is completed each fiscal year by its largest Bureaus and Offices as well as its reporting components. Furthermore, the Commission uses an additional program risk assessment tool for higher risk areas, such as the USF programs, and TRS, as well as functions related to auctions, contracts, financial operations, administrative operations, records management, human resources, and information technology. In FY 2020, the Senior Management Council (SMC) continued its oversight of the agency's entity and program level risk assessments as a part of its overall Enterprise Risk

Management (ERM) process pursuant to OMB Circular A-123. The SMC includes representatives from across the FCC's Bureaus and Offices to more fully integrate the FCC's internal control assessment processes into the operations of the FCC's Bureaus and Offices while also identifying, monitoring, and mitigating risks throughout the year. While the Commission has received unmodified opinions over its consolidated financial statements for fifteen consecutive years, the Commission understands that maintaining proper internal controls requires continuous review of its internal controls and implementing improvements to them on an ongoing basis.

Financial Management Systems – Section 4 of FMFIA

Section 4 of FMFIA requires agencies to evaluate annually whether the agency's financial management systems conform to government-wide requirements. In FY 2020, the Commission's financial management systems were in compliance with government-wide requirements. The Commission continues to work with its reporting components on their financial management systems.

Statement of Assurance

FCC management is responsible for managing risks and maintaining effective internal controls to meet the objectives of Sections 2 and 4 of FMFIA. The FCC conducted its assessment of risk and internal control in accordance with OMB Circular A-123, *Management's Responsibility for Enterprise Risk Management and Internal Control*. Based on the results of the assessment, the FCC can provide reasonable assurance that internal controls over operations, reporting, and compliance were operating effectively as of September 30, 2020.

Ajit V. Pai
Chairman
November 13, 2020

Financial Management Systems Strategy

The Commission's financial management system, Genesis, is a Momentum based product that serves as the financial accounting system of record and provides for the core accounting services to the Commission. These services include: funds control, budget execution, general ledger, accounts payable, accounts receivable, financial reports, auction management, and access controls. Genesis facilitates compliance with the Federal Managers' Financial Integrity Act (FMFIA), and the maintenance of an unmodified financial audit opinion. The Commission continues to optimize financial management system controls through ongoing continuous monitoring reviews, business process engineering initiatives and implementation of best practices, including the migration of the Genesis system to the Cloud environment. The FCC continues to maintain a steady state within the core financial system and to fully utilize the Genesis system's features and functions, aligning financial system activities with the Commission's business management goals.

The financial management system continues to support the accounting for the auctions program at the FCC, including the activities under the Spectrum Act, which provides for the reimbursement of relocation expenses for eligible entities. The Commission Registration System (CORES) system allows reimbursement eligible entities to enter their payment banking information into CORES online and to view the entity's available balance for reimbursement along with the history of payments made to the entity. With the FY 2020 implementation of the CORES letter correspondence via e-mail functionality, the financial management system operations team continues to improve its support processes to be more efficient and to eliminate paper processes.

The Genesis financial management system supports efficiency initiatives, including the Invoice Processing Platform (IPP), which reduces the paper chain associated with the document review process and reduces, and/or eliminates, instances of duplicate data entry. In support of the CARES Act Telehealth program, the financial operations team leveraged the scalable functionality of Genesis and IPP to quickly accommodate the new reimbursement program.

Genesis also provides self-service capability for the Bureaus and Offices to execute accounting functions, including business analytics for decision making. In FY 2020, several more FCC financial legacy systems, such as "The Historical Loan system" and "ROSIE - Remittance Over Secure Internet (E-Commerce)", were decommissioned, continuing to decrease operations and maintenance costs and supporting modernization initiatives.

The Commission's financial management system strategy continues to build on processes that: improve internal controls; increase integration; implement tools that enhance budget formulation and performance; and improve financial coordination with our reporting components.

Financial Discussion and Analysis

UNDERSTANDING THE FINANCIAL STATEMENTS

The Commission is committed to excellence and accuracy in financial reporting, transparency, and financial management. Preparing the Commission's financial statements is part of the goal to improve financial management and provide accurate and reliable financial information that is useful for assessing performance and allocating resources. The Commission's management is responsible for the integrity and objectivity of the information presented in the financial statements. For fifteen consecutive years, the financial statements have received an unmodified or clean audit opinion from the independent external auditors hired by the Office of Inspector General.

The principal financial statements have been prepared to report the financial position and results of operations of the Commission. The statements have been prepared from the books and records of the Commission, in accordance with U.S. generally accepted accounting principles (GAAP) for Federal entities. The financial statements and notes are presented in accordance with Office of Management and Budget (OMB) Circular No. A-136, *Financial Reporting Requirements—Revised*, dated August 27, 2020.

This section presents a summary analysis of key financial statement core business activities. The principal financial statements include the Consolidated Balance Sheet, Consolidated Statement of Net Cost, Consolidated Statement of Changes in Net Position, Combined Statement of Budgetary Resources and Consolidated Statement of Custodial Activity. This section also summarizes the financial activity and net position of the Commission. The complete set of principal financial statements is included in section 2 of this report.

A summary of the Commission's major financial activities in FY 2020 and FY 2019 is presented in the table on the next page. This table represents the resources available for use (assets) against the amount owed (liabilities) and the amount that comprises the difference (net position). The net cost represents the gross cost of operating the Commission's lines of business less earned revenue. Budgetary resources represent funds made available to the Commission.

CHANGES IN FINANCIAL POSITION IN FY 2020

Consolidated

(Dollars in Thousands)

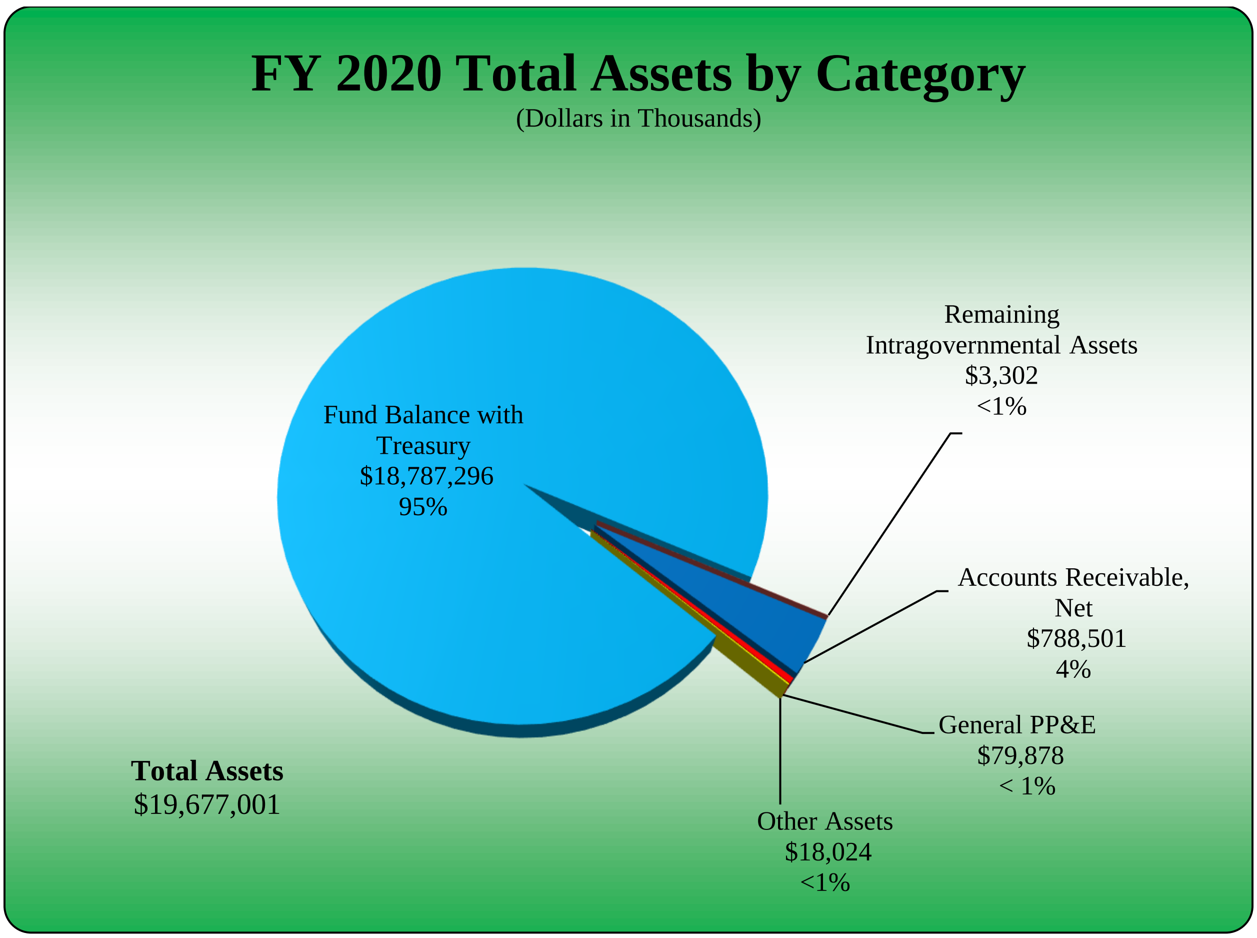
Net Financial Condition	FY 2020	FY 2019	Increase (Decrease)	Percentage Change
Intragovernmental				
Fund Balance with Treasury	$ 18,787,296	$ 14,516,697	$ 4,270,599	29%
Investments	-	307,899	(307,899)	-100%
Accounts Receivable	439	449	(10)	-2%
Other	2,863	1,241	1,622	131%
Total Intragovernmental	$ 18,790,598	$ 14,826,286	$ 3,964,312	27%
Cash and Other Monetary Assets	$ -	$ 5,437	$ (5,437)	-100%
Accounts Receivable, net	788,501	893,321	(104,820)	-12%
General Property & Equipment, net	79,878	72,138	7,740	11%
Other	18,024	13,024	5,000	38%
Total Assets	**$ 19,677,001**	**$ 15,810,206**	$ 3,866,795	24%
Intragovernmental				
Accounts Payable	$ 10,525	$ 813	$ 9,712	1195%
Liability to the General Fund and Other Non-Entity Assets	7,738,740	3,381,997	4,356,743	129%
Other	3,553	3,214	339	11%
Total Intragovernmental	$ 7,752,818	$ 3,386,024	$ 4,366,794	129%
Accounts Payable	$ 827,857	$ 697,338	$ 130,519	19%
Federal Employee and Veteran Benefits	3,019	3,118	(99)	-3%
Deferred Revenue	2,997,879	2,767,977	229,902	8%
Prepaid Contributions	108,399	57,155	51,244	90%
Accrued Liabilities for USF and TRS	483,329	489,926	(6,597)	-1%
Other	51,379	41,389	9,990	24%
Total Liabilities	**$ 12,224,680**	**$ 7,442,927**	$ 4,781,753	64%
Unexpended Appropriations - Funds from Dedicated Collections	$ 857,848	$ 982,952	$ (125,104)	-13%
Unexpended Appropriations - All Other Funds	150,738	2,816	147,922	5253%
Cumulative Results of Operations - Funds from Dedicated Collection	6,251,781	7,158,613	(906,832)	-13%
Cumulative Results of Operations - All Other Funds	191,954	222,898	(30,944)	-14%
Total Net Position - Funds from Dedicated Collections	7,109,629	8,141,565	(1,031,936)	-13%
Total Net Position - All Other Funds	342,692	225,714	116,978	52%
Total Net Position	**$ 7,452,321**	**$ 8,367,279**	$ (914,958)	-11%
Total Liabilities and Net Position	**$ 19,677,001**	**$ 15,810,206**	$ 3,866,795	24%
Net Cost of Operations	**$ 10,367,032**	**$ 10,708,932**	$ (341,900)	-3%
Total Budgetary Resources	**$ 733,672**	**$ 6,159,574**	$(5,425,902)	-88%

The following is a brief description of the nature of each required financial statement and its relevance, including a description of certain significant balances on Commission operations.

*__Consolidated Balance Sheet__***:** The Consolidated Balance Sheet presents the total amounts available for use by the Commission (total assets) and the amounts owed by the Commission (total liabilities). Fund Balance with Treasury represents 95 percent of total assets as of September 30, 2020.

The pie chart below presents the total assets of the Commission as of September 30, 2020. The large Fund Balance with Treasury balance of $18,787 million, mainly results from the spectrum auctions, USF and TRS activities. In FY 2020, the TRS funded securities matured and were moved to a newly established account within the Treasury.

The Accounts Receivable balance of $789 million is primarily composed of USF receivables totaling $715 million.



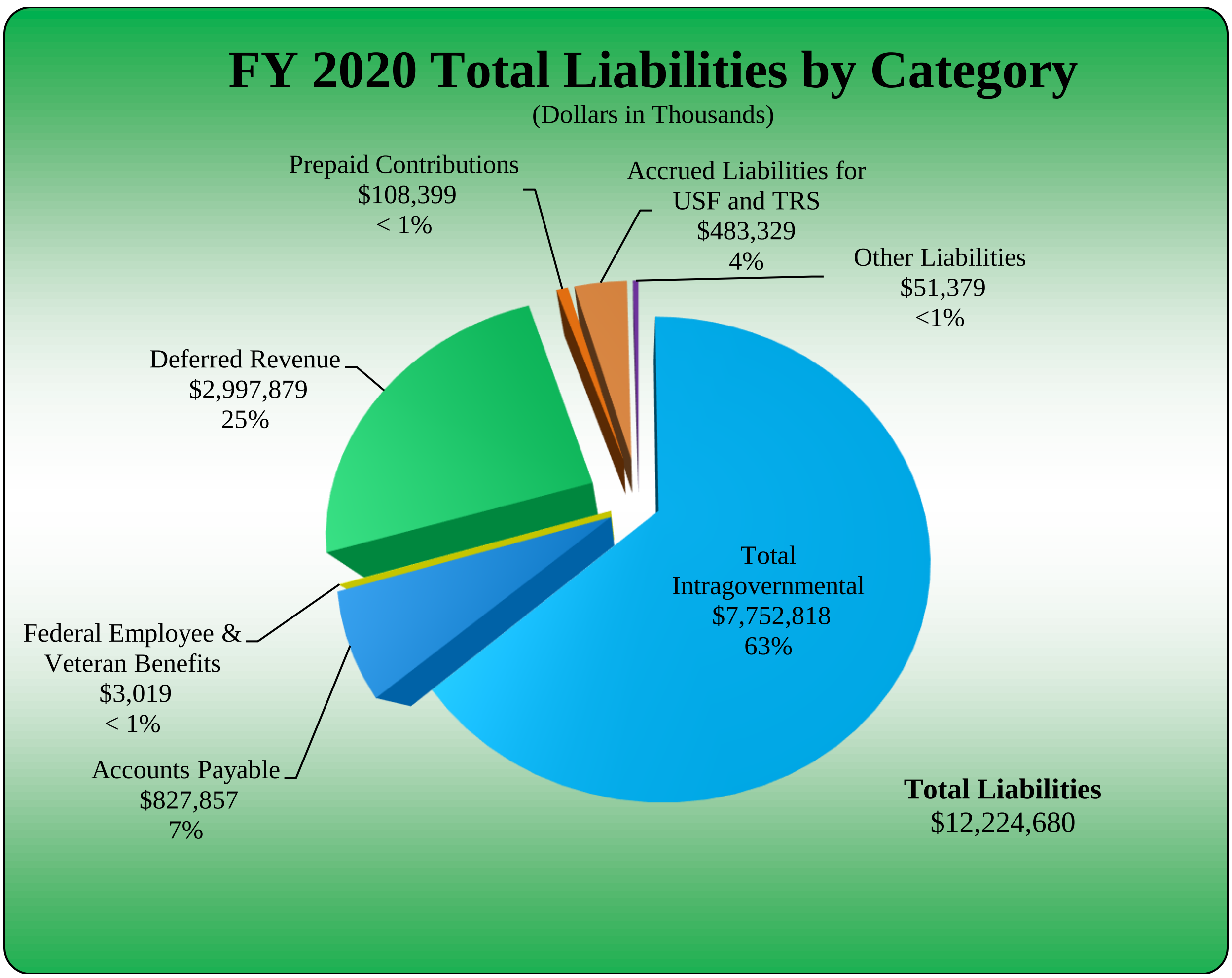
The pie chart below presents the total liabilities of the Commission as of September 30, 2020. The Commission's most significant liabilities are Total Intragovernmental of $7,753 million, and Deferred Revenue of $2,998 million which alone accounted for over 88 percent of total liabilities as of September 30, 2020.

The large Total Intragovernmental is primarily composed of custodial collections earned on spectrum auctions and miscellaneous receipts.

The large Deferred Revenue balance is mainly due to spectrum auction 105 winning bids of licenses that have not been granted as of September 30, 2020.

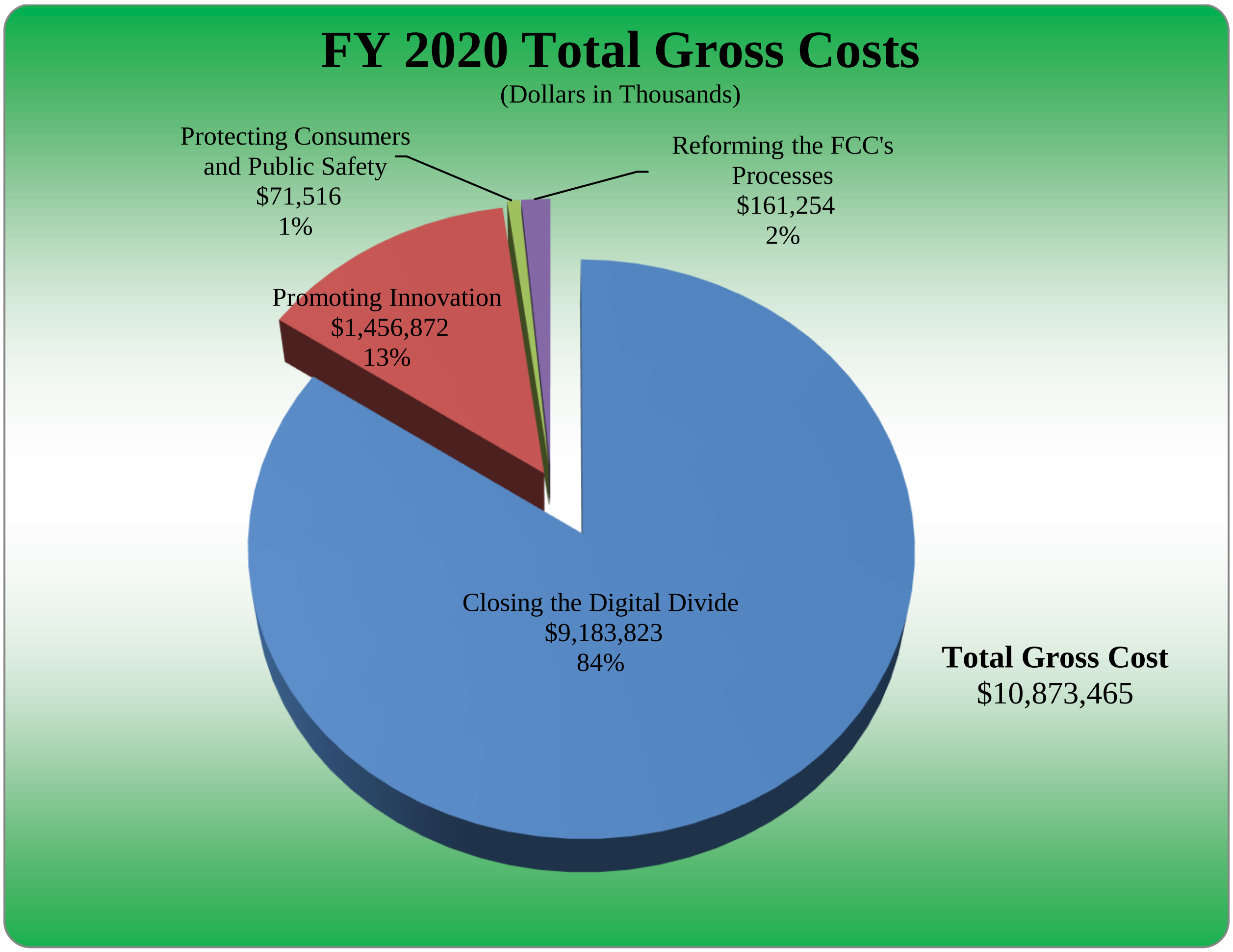
The Accounts Payable balance is primarily composed of the expense accrual for the TV Broadcasters Relocation Fund (TVBRF), Connect America Fund (CAF) II Alternative Cost Model (A-CAM) and A-CAM II support, and CAF Phase II Auction.

The Accrued Liabilities for USF and TRS represent the expected October (FY 2021) payments for the USF's High Cost Legacy Support, Lifeline Program, and the expected October and November (FY 2021) payments for the TRS Program.



Consolidated Statement of Net Cost: This statement presents the annual cost of operating the Commission's programs. The Consolidated Statement of Net Cost is aligned with the four strategic goals of the Commission: Closing the Digital Divide; Promoting Innovation; Protecting Consumers and Public Safety; and Reforming the FCC's Processes. Gross costs for each goal are presented individually while revenue is presented in total rather than by goal. The program costs for the USF are allocated to strategic goals Closing the Digital Divide and Promoting Innovation, and the program costs for the TRS are allocated to the strategic goal Closing the Digital Divide. Due to the accounting for these activities, the cost for some goals may be significantly higher than the cost of other goals. Contributions received for the USF and TRS programs are shown on the Statement of Changes in Net Position and do not directly offset the costs of these programs on the Statement of Net Cost.

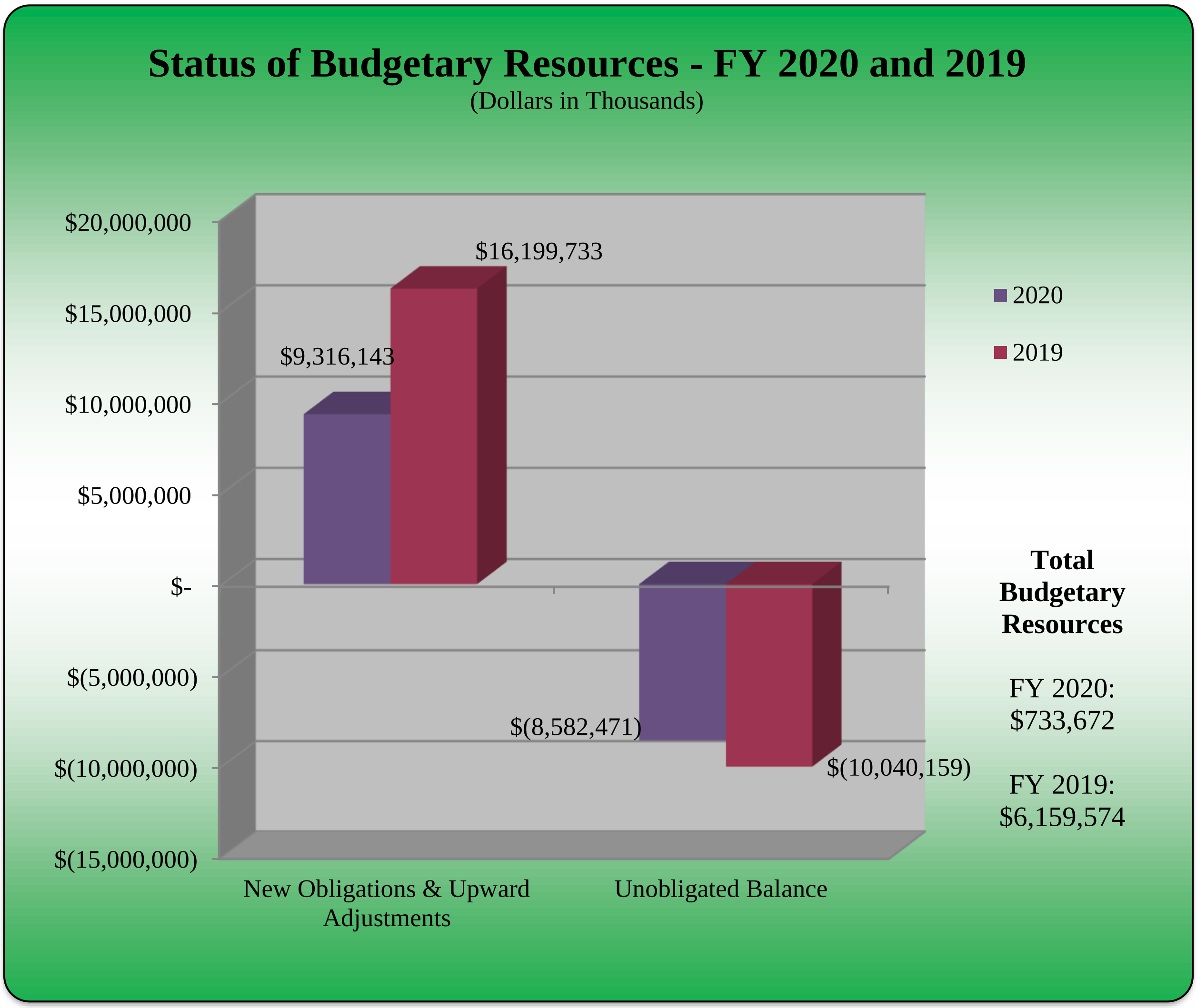
The pie chart below presents the total gross costs of each strategic goal.



Consolidated Statement of Changes in Net Position: This statement presents the cumulative net results of operations and total unexpended appropriations in order to understand the nature of changes to the net position as a whole. In FY 2020, the Commission's Net Position decreased $915 million or eleven percent to $7,452 million compared to the net position of $8,367 million for FY 2019.

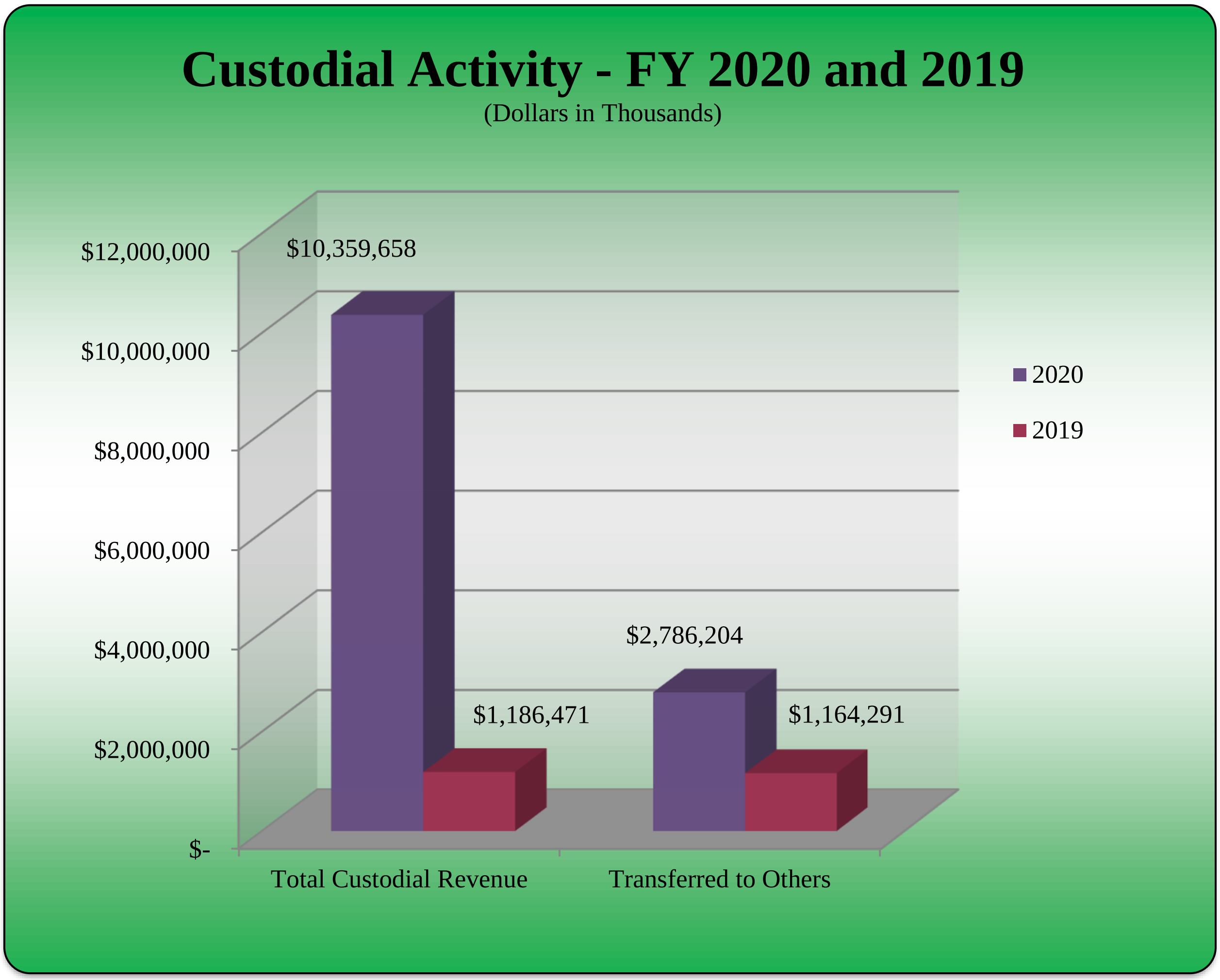
Combined Statement of Budgetary Resources: This statement provides information on how budgetary resources were made available to the Commission for the year and the status of those budgetary resources at the end of the year. The Commission receives most of its budgetary authority from appropriations. Budgetary resources consist of the resources available to the Commission at the beginning of the year, plus appropriations, spending authority from offsetting collections, and other budgetary resources received during the year. The Commission had $9,316 million in new obligations and upward adjustments, a ($8,582) million unobligated balance and $734 million in total budgetary resources. The abnormal balances in FY 2020 and FY 2019 are related to CAF Phase II Auction and A-CAM II obligations. These support mechanisms are part of the High Cost program under the USF, which are exempt from the Antideficiency Act through December 31, 2020.

The chart below presents the status of budgetary resources comparatively between FY 2020 and FY 2019.



*Consolidated Statement of Custodial Activity***:** In FY 2020, the Commission recognized $10,360 million in custodial revenue. From this balance, $3,084 million in auction revenue was paid for reverse incentive auction winners. The Commission also transferred $2,723 million of earned auctions revenue and $63 million in miscellaneous receipts, fines and penalties to the Treasury General Fund. In FY 2019, the Commission recognized $1,186 million in custodial revenue. The FCC transferred earned auctions revenue of $1,155 million from the Broadcast Incentive Auction (BIA) to the Public Safety Trust Fund managed by the National Telecommunication and Information Administration (NTIA), and $1 million of earned revenues from other prior spectrum auctions to the Treasury General Fund.

The chart below compares the total amount of custodial revenue and amounts transferred to others between FY 2020 and FY 2019.



Other Key Financial Statement Highlights

Regulatory Fee Collections

Pursuant to 47 U.S.C. § 159, the Commission annually collects regulatory fees and retains them to offset certain costs incurred by the Commission. The amount the Commission is required to recover is included in the Commission's appropriations.

Regulatory fees are collected and warranted back to the Treasury to offset the Commission's appropriations for the current fiscal year. In FY 2020, the Commission was required to collect $339 million in regulatory fees. Excess collections were $6 million above the required regulatory fee level and transferred to the General Fund of the Treasury for the sole purpose of deficit reduction.

Limitations on the Financial Statements

The principal financial statements have been prepared to report the financial position and results of operations of the Federal Communications Commission, pursuant to the requirements of 31 U.S.C. § 3515(b). While the principal financial statements have been prepared from the books and records of the Commission in accordance with GAAP for Federal entities and the formats prescribed by OMB, the statements are in addition to the financial reports used to monitor and control budgetary resources which are prepared from the same books and records.

The statements should be read with the realization that they are for a component of the United States Government, a sovereign entity.

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II. FINANCIAL STATEMENTS AND AUDITOR'S REPORT

Transmittal from Office of Inspector General

OFFICE OF INSPECTOR GENERAL

DATE: November 13, 2020

TO: Chairman

FROM: Inspector General For RM

SUBJECT: Audit of the Federal Communications Commission's Financial Statements for Fiscal Year 2020

As required by the Accountability of Tax Dollars Act of 2002 (Pub. L. 107-289), the Office of Inspector General (OIG) engaged the independent certified public accounting firm of Kearney & Company, P.C. (Kearney) to audit, in accordance with generally accepted government auditing standards, the Federal Communications Commission's (FCC) fiscal year (FY) 2020 financial statements.

Kearney's reports include an opinion on FCC's financial statements, a report on internal control over financial reporting and a report on compliance and other matters. In summary, Kearney found:

- The financial statements were fairly presented in all material respects, in conformity with U.S. generally accepted accounting principles.
- A significant deficiency related to information technology controls (IT) at FCC and Universal Service Fund (USF), which was a repeat issue from the fiscal year 2019 audit report.
- No reportable instances of noncompliance with laws, regulations and contracts applicable to FCC.

Kearney cleared a prior year audit finding related to the USF budgetary accounting and the associated prior year audit recommendations. Kearney also reported separately in its Federal Information Security Management Act (FISMA) report 17 IT recommendations, which are intended to improve the effectiveness of IT controls over FCC and Universal Service Administrative Company systems. The details of the all IT findings and recommendations are included in the separate FISMA evaluation report.

Kearney is wholly responsible for the attached financial statement audit reports dated, November 13, 2020, and the conclusions expressed therein. In connection with our contract, we reviewed Kearney's reports and related documentation and inquired of its representatives. Our review did not disclose any instances where Kearney did not comply, in all material respects, with Government Auditing Standards. Our review, as differentiated from an audit of the financial statements in accordance with U.S. generally accepted auditing standards, was not intended to enable us to and, accordingly, we do not express an opinion on the FCC's financial statements or internal control over financial reporting, or on compliance with laws and regulations and other matters.

The Office of Inspector General appreciates the cooperation and courtesies you extended to our staff and the staff of Kearney & Company, P.C. during the audit.

cc: Managing Director
Chief of Staff
Chief Financial Officer
Chief Information Officer

KEARNEY & COMPANY

1701 Duke Street, Suite 500, Alexandria, VA 22314
PH: 703.931.5600, FX: 703.931.3655, www.kearneyco.com

INDEPENDENT AUDITOR'S REPORT

To the Chairman, Managing Director, and the Inspector General of the Federal Communications Commission:

Report on the Financial Statements

We have audited the accompanying financial statements of the Federal Communications Commission (FCC), which comprise the consolidated balance sheet as of September 30, 2020 and 2019, the related consolidated statements of net cost, changes in net position, and custodial activity, and the combined statement of budgetary resources (hereinafter referred to as the "financial statements") for the years then ended, as well as the related notes to the financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and Office of Management and Budget (OMB) Bulletin No. 19-03, *Audit Requirements for Federal Financial Statements*. Those standards and OMB Bulletin No. 19-03 require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of FCC as of September 30, 2020 and 2019, and its net cost of operations, changes in net position, custodial activities, and budgetary resources for the years then ended, in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the Management's Discussion and Analysis and Schedule of Budgetary Resources by Major Account (hereinafter referred to as the "required supplementary information") sections be presented to supplement the financial statements. Such information, although not a part of the financial statements, is required by OMB and the Federal Accounting Standards Advisory Board (FASAB), who consider it to be an essential part of financial reporting for placing the financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management regarding the methods of preparing the information and comparing it for consistency with management's responses to our inquiries, the financial statements, and other knowledge we obtained during our audits of the financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Information

Our audits were conducted for the purpose of forming an opinion on the financial statements taken as a whole. The information in the *Message from the Chairman* and the *Other Information* sections in the Agency Financial Report are presented for purposes of additional analysis and is not a required part of the financial statements. Such information has not been subjected to the auditing procedures applied in the audits of the financial statements; accordingly, we do not express an opinion or provide any assurance on it.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards* and OMB Bulletin No. 19-03, we have also issued reports, dated November 13, 2020, on our consideration of FCC's internal control over financial reporting and on our tests of FCC's compliance with provisions of laws, regulations, contracts, and grant agreements, as well as other matters for the year ended September 30, 2020. The purpose of those reports is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance and other matters. Those reports are an integral part of an audit performed in accordance with *Government Auditing Standards* and OMB Bulletin No. 19-03 and should be considered in assessing the results of our audits.

Kearney & Company

Alexandria, Virginia
November 13, 2020

KEARNEY& COMPANY

1701 Duke Street, Suite 500, Alexandria, VA 22314
PH: 703.931.5600, FX: 703.931.3655, www.kearneyco.com

INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING

To the Chairman, Managing Director, and the Inspector General of the Federal Communications Commission:

We have audited, in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and Office of Management and Budget (OMB) Bulletin No. 19-03, *Audit Requirements for Federal Financial Statements*, the financial statements of the Federal Communications Commission (FCC) as of and for the year ended September 30, 2020, and the related notes to the financial statements, which collectively comprise the FCC's financial statements, and we have issued our report thereon dated November 13, 2020.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered FCC's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of FCC's internal control. Accordingly, we do not express an opinion on the effectiveness of FCC's internal control. We limited our internal control testing to those controls necessary to achieve the objectives described in OMB Bulletin No. 19-03. We did not test all internal controls relevant to operating objectives as broadly defined by the Federal Managers' Financial Integrity Act of 1982 (FMFIA), such as those controls relevant to ensuring efficient operations.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A material weakness is a deficiency, or combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected, on a timely basis. A significant deficiency is a deficiency, or combination of deficiencies, in internal control that is less severe than a material weakness yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and, therefore, material weaknesses or significant deficiencies may exist that were not identified. Given these limitations, during our audit, we did not identify any deficiencies in internal control that we consider to be material weaknesses.

We did identify a certain deficiency in internal control, described in the accompanying Schedule of Findings, that we consider to be a significant deficiency.

FCC's Responses to Findings

FCC's response and concurrence to the findings identified in our audit is included in the memorandum from management, entitled *Management's Response to Independent Auditor's Reports on Internal Control over Financial Reporting and Compliance with Laws, Regulations, Contracts, and Grant Agreements for Fiscal Year 2020*, included in FCC's Agency Financial Report. FCC's response was not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on it.

Purpose of This Report

The purpose of this report is solely to describe the scope of our testing of internal control and the results of that testing, and not to provide an opinion on the effectiveness of FCC's internal control. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* and OMB Bulletin No. 19-03 in considering the entity's internal control. Accordingly, this report is not suitable for any other purpose.

Kearney & Company

Alexandria, Virginia
November 13, 2020

Schedule of Findings

Significant Deficiency

I. Information Technology

Background: The Federal Communications Commission (FCC) uses information systems to compile information for financial reporting purposes, including FCC's core financial management and accounting system, Genesis. FCC's general information technology (IT) support system serves as the gateway for users to access FCC information and information systems, including Genesis. In addition, because FCC's financial statements include financial transactions relating to the Universal Service Fund (USF) programs, FCC relies upon general IT support systems and specific applications utilized by the administrator of the USF programs (i.e., Universal Service Administrative Company [USAC]).

Kearney & Company, P.C. (Kearney) separately performed an evaluation of FCC's Information Security Program, as required by the Federal Information Security Modernization Act of 2014 (FISMA), and issued a separate report. In addition to the work performed during our FISMA evaluation, we performed risk-based procedures focused on IT controls that could lead to significant misstatements of, or corruption to, the financial data needed for FCC's financial statements. We performed this work in accordance with the Government Accountability Office's (GAO) Federal Information System Controls Audit Manual (FISCAM). Many of the IT control areas of FISMA overlap with those in FISCAM, such as Risk Management, Access Controls, Configuration Management, and Contingency Planning. Other IT controls areas are unique to FISCAM due to their relevance to financial management and reporting, such as segregation of duties and application controls. We performed risk-based procedures related to segregation of duties within Genesis. Additionally, we performed risk-based procedures related to the core financial management system utilized by USAC to administer the USF programs, the Financial Operations System (FOS), as well as USAC's Schools and Libraries (S&L) account and application management system, E-Rate Productivity Center (EPC). The fiscal year (FY) 2020 FISMA evaluation report includes detailed information for each identified finding.

Condition: The following summarizes the IT control deficiencies noted during the FISMA evaluation and FISCAM testing in support of the financial statement audit. In aggregate, Kearney considers these control deficiencies to be a significant deficiency.

- **FCC General IT Support System** – The FY 2020 FCC FISMA evaluation identified deficiencies in multiple IT control areas that impacted the FCC's general IT support system, including Identity and Access Management and Information Security Continuous Monitoring (ISCM). Most notably, FCC did not enforce the use of Personal Identity Verification (PIV) credentials as a dual-factor authentication mechanism for logical access, and FCC did not consistently remediate identified network vulnerabilities within the timeframes required by FCC policy.

- **Genesis** –FCC's general IT support system serves as the gateway for users to access Genesis. Therefore, IT deficiencies noted in the general IT support system, as described above, may impact Genesis as well. Further, we noted additional control deficiencies impacting Genesis beyond those inherited from FCC's general IT support system. Specifically, FCC did not perform reviews of required auditable events captured in a Genesis application audit log in accordance with FCC's policies and internal control documentation. Required auditable events include access changes to Genesis user accounts.

- **USAC Systems Utilized in Administering the USF Programs** – USAC did not properly manage user accounts with access to both FOS and EPC. Further, USAC did not perform reviews of required auditable events captured in an EPC application audit log in accordance with USAC's policies and internal control documentation. Similar to FCC, required auditable events include access changes to EPC user accounts.

In general, FCC did not implement effective policies, procedures, and controls over its general IT support system and Genesis. Additionally, USAC did not implement effective security and account management policies, procedures, and processes over FOS and EPC.

Cause: FCC's ongoing efforts to implement planned corrective actions, remediate longstanding IT deficiencies in its IT general support system, modernize legacy technologies, and fully implement all documented information security policies, procedures, and processes continue to require significant resources. Additionally, USAC's efforts, under FCC oversight, to remediate deficiencies in systems utilized in administering the USF programs remained incomplete due primarily to prioritization, timing, and resource constraints.

Effect: Inadequate controls over IT security can affect the integrity of financial applications, which increases the risk that unauthorized individuals could access sensitive financial information or that financial transactions could be altered, either accidentally or intentionally. IT deficiencies increase the risk that FCC will be unable to report financial data in an accurate and timely manner.

Recommendations: Our full FY 2020 FISMA evaluation report included 17 recommendations intended to improve the effectiveness of FCC's Information Security Program controls in the areas of Risk Management, Configuration Management, Identity and Access Management, and ISCM. Eight of the recommendations related to FCC and nine of the recommendations related to USAC. Of the eight FCC recommendations, seven related to FISCAM control areas. All nine of the USAC recommendations related to FISCAM control areas.

Appendix A: Status of Prior-Year Findings and Recommendations

In the *Independent Auditor's Report on Internal Control Over Financial Reporting*, included in the audit report on the Federal Communications Commission's (FCC) fiscal year (FY) 2019 financial statements,[1] Kearney & Company, P.C. (Kearney) noted two reportable findings. The status of the FY 2019 internal control findings and recommendations are summarized in ***Exhibit 1*** and ***Exhibit 2***.

Exhibit 1: Status of Prior-Year Findings

Control Deficiency	FY 2019 Status	FY 2020 Status
Universal Service Fund (USF) Budgetary Accounting	Significant Deficiency	Closed
Information Technology (IT)	Significant Deficiency	Significant Deficiency

During the FY 2019 financial statement audit, Kearney made specific recommendations to FCC related to the control deficiencies noted above to strengthen FCC's internal control environment over financial reporting. The status of the FY 2019 internal control recommendations is summarized in ***Exhibit 2***.

Exhibit 2: Status of Prior-Year Recommendations

Related Control Deficiency	Recommendation Description	FY 2020 Status
USF Budgetary Accounting	Policies and procedures for recording obligations and de-obligations	Closed
	Quality control over high-dollar obligations processed in the legacy system	Closed
	Lines of communication between Accounting personnel and the program offices	Closed
IT[2]	Kearney issued 24 IT-related recommendations in FY 2019	7 Open 17 Closed

[1] The *Independent Auditor's Report on Internal Control Over Financial Reporting* was published in FCC's FY 2019 Agency Financial Report.

[2] Kearney issued 24 recommendations in the FY 2019 FISMA evaluation report. During FY 2020, FCC took appropriate action to close 17 recommendations, and we either updated or re-issued the seven recommendations that remain open. The FY 2020 FISMA evaluation report includes additional, detailed information on each of the 24 prior-year recommendations.

KEARNEY& COMPANY

1701 Duke Street, Suite 500, Alexandria, VA 22314
PH: 703.931.5600, FX: 703.931.3655, www.kearneyco.com

INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE WITH LAWS, REGULATIONS, CONTRACTS, AND GRANT AGREEMENTS

To the Chairman, Managing Director, and the Inspector General of the Federal Communications Commission:

We have audited, in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and Office of Management and Budget (OMB) Bulletin No. 19-03, *Audit Requirements for Federal Financial Statements*, the financial statements of the Federal Communications Commission (FCC) as of and for the year ended September 30, 2020, and the related notes to the financial statements, which collectively comprise the FCC's financial statements, and we have issued our report thereon dated November 13, 2020.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the FCC's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements with which could have a direct and material effect on the determinations of financial statement amounts. We limited our tests of compliance to these provisions and did not test compliance with all laws, regulations, contracts, and grant agreements applicable to FCC. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion.

The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards* and OMB Bulletin No. 19-03. Although our audit procedures did not identify any instances of known noncompliance in fiscal year (FY) 2020, FCC management communicated potential instances of noncompliance with the Antideficiency Act[1] based on events that occurred in FY 2011 and FY 2019. These potential instances of noncompliance were still being researched by FCC as of September 30, 2020.

Purpose of This Report

The purpose of this report is solely to describe the scope of our testing of compliance and the results of that testing, and not to provide an opinion on the effectiveness of FCC's compliance. This report is an integral part of an audit performed in accordance with *Government Auditing*

[1] The Antideficiency Act prohibits FCC from obligating or expending Federal funds in advance or in excess of an appropriation, as well as from accepting voluntary services.

Standards and OMB Bulletin No. 19-03 in considering FCC's compliance. Accordingly, this report is not suitable for any other purpose.

Kearney & Company

Alexandria, Virginia
November 13, 2020

Commission's Response to Independent Auditor's Reports

UNITED STATES GOVERNMENT
FEDERAL COMMUNICATIONS COMMISSON

Office of the Managing Director

DATE: November 13, 2020

TO: David L. Hunt, Inspector General

FROM: Mark Stephens, Managing Director
Jae Seong, Chief Financial Officer
Francisco Salguero, Chief Information Officer

SUBJECT: Management's Response to Independent Auditor's Reports on Internal Control over Financial Reporting and Compliance with Laws, Regulations, Contracts, and Grant Agreements for Fiscal Year 2020

Thank you for the opportunity to review and comment on the draft reports entitled *Independent Auditor's Report on Internal Control over Financial Reporting and Independent Auditor's Report on Compliance with Laws, Regulations, Contracts, and Grant Agreements*. As always, the Federal Communications Commission (FCC or Commission) appreciates the efforts of the Office of Inspector General and its independent auditor, Kearney and Company, to work with the FCC throughout the annual financial statement audit process.

We are pleased that, for the fifteenth straight year, the independent auditor provided an unmodified ("clean") opinion and found that the Commission's consolidated financial statements for Fiscal Year (FY) 2020 present fairly, in all material respects, the financial position of the Commission as of September 30, 2020. In addition, the results of the audit tests disclosed no instances of noncompliance or other matters that are required to be reported.

Despite this successful outcome, work remains here at the Commission. The FY 2020 audit report identified one significant deficiency related to information technology controls. We concur with the recommendations made by the independent auditors in their reports.

We look forward to working in FY 2021 to resolve the FY 2020 audit findings and to enhance the culture of integrity, accountability, and excellence that exists here at the Commission.

Mark Stephens Managing Director Office of Managing Director	Jae Seong Chief Financial Officer Office of Managing Director	Francisco Salguero Chief Information Officer Office of Managing Director

Principal Statements

Federal Communications Commission

Consolidated Balance Sheets

As of September 30, 2020 and 2019
(Dollars in thousands)

	FY 2020	FY 2019
Assets (Note 2):		
Intragovernmental:		
Fund Balance with Treasury (Note 3)	$ 18,787,296	$ 14,516,697
Investments (Note 4)	-	307,899
Accounts receivable, net (Note 5)	439	449
Other	2,863	1,241
Total intragovernmental	18,790,598	14,826,286
Cash and other monetary assets	-	5,437
Accounts receivable, net (Note 5)	788,501	893,321
General property, plant, and equipment, net (Note 6)	79,878	72,138
Other	18,024	13,024
Total assets	$ 19,677,001	$ 15,810,206
Liabilities (Note 7):		
Intragovernmental:		
Accounts payable	$ 10,525	$ 813
Other (Note 8)		
Liability to the General Fund and Other Non-Entity Assets	7,738,740	3,381,997
Other	3,553	3,214
Total other	7,742,293	3,385,211
Total intragovernmental	7,752,818	3,386,024
Accounts payable	827,857	697,338
Federal employee and veteran benefits	3,019	3,118
Other (Note 8)		
Deferred revenue	2,997,879	2,767,977
Prepaid contributions	108,399	57,155
Accrued liabilities for USF and TRS	483,329	489,926
Other	51,379	41,389
Total other	3,640,986	3,356,447
Total liabilities	$ 12,224,680	$ 7,442,927
Commitments and contingencies (Note 9)		
Net position		
Unexpended appropriations – Funds from Dedicated Collections (Note 10)	$ 857,848	$ 982,952
Unexpended appropriations – All other funds	150,738	2,816
Cumulative results of operations – Funds from Dedicated Collections (Note 10)	6,251,781	7,158,613
Cumulative results of operations – All other funds	191,954	222,898
Total net position – Funds from dedicated collections (Note 10)	7,109,629	8,141,565
Total net position – All other funds	342,692	225,714
Total net position	7,452,321	8,367,279
Total liabilities and net position	$ 19,677,001	$ 15,810,206

The accompanying notes are an integral part of these statements.

Federal Communications Commission
Consolidated Statements of Net Cost
For the Years Ended September 30, 2020 and 2019
(Dollars in thousands)

	FY 2020	FY 2019
Gross Program Costs:		
Closing the Digital Divide		
Total Gross Cost	$ 9,183,823	$ 9,328,121
Promoting Innovation		
Total Gross Cost	1,456,872	1,713,767
Protecting Consumers and Public Safety		
Total Gross Cost	71,516	70,911
Reforming the FCC's Processes		
Total Gross Cost	161,254	110,092
Total Program Costs	$ 10,873,465	$ 11,222,891
Less: earned revenues not attributed to programs	(506,433)	(513,959)
Net cost of operations	$ 10,367,032	$ 10,708,932

The accompanying notes are an integral part of these statements.

Federal Communications Commission
Consolidated Statements of Changes in Net Position
For the Years Ended September 30, 2020 and 2019
(Dollars in thousands)

	FY 2020			FY 2019		
	Funds from Dedicated Collections (Note 10)	**All Other Funds**	**Consolidated Total**	**Funds from Dedicated Collections** (Note 10)	**All Other Funds**	**Consolidated Total**
Unexpended Appropriations:						
Beginning Balance, as adjusted	$ 982,952	$ 2,816	$ 985,768	$ 600,000	$ 2,816	$ 602,816
Budgetary Financing Sources:						
Appropriations received	-	200,000	200,000	400,000	-	400,000
Appropriations used	(125,104)	(52,078)	(177,182)	(17,048)	-	(17,048)
Total Budgetary Financing Sources	(125,104)	147,922	22,818	382,952	-	382,952
Total Unexpended Appropriations	$ 857,848	$ 150,738	$ 1,008,586	$ 982,952	$ 2,816	$ 985,768
Cumulative Results from Operations:						
Beginning Balance, as adjusted	$ 7,158,613	$ 222,898	$ 7,381,511	$ 8,077,259	$ 311,118	$ 8,388,377
Budgetary Financing Sources:						
Appropriations used	125,104	52,078	177,182	17,048	-	17,048
Nonexchange revenue	9,271,661	3,320	9,274,981	9,829,226	-	9,829,226
Other Financing Sources (Nonexchange):						
Imputed Financing	-	11,670	11,670	-	13,345	13,345
Other	-	(34,577)	(34,577)	-	(157,553)	(157,553)
Total Financing Sources	9,396,765	32,491	9,429,256	9,846,274	(144,208)	9,702,066
Net Cost of Operations	10,303,597	63,435	10,367,032	10,764,920	(55,988)	10,708,932
Net Change	(906,832)	(30,944)	(937,776)	(918,646)	(88,220)	(1,006,866)
Cumulative Results of Operations	6,251,781	191,954	6,443,735	7,158,613	222,898	7,381,511
Net Position	$ 7,109,629	$ 342,692	$ 7,452,321	$ 8,141,565	$ 225,714	$ 8,367,279

The accompanying notes are an integral part of these statements.

Federal Communications Commission
Combined Statements of Budgetary Resources
For the Years Ended September 30, 2020 and 2019
(Dollars in thousands)

	FY 2020	FY 2019
Budgetary Resources:		
Unobligated balance from prior year budget authority, net (discretionary and mandatory)	$ (9,387,542)	$ (4,467,012)
Appropriations (discretionary and mandatory)	9,648,793	10,156.114
Spending Authority from offsetting collections (discretionary and mandatory)	472,421	470,472
Total budgetary resources	$ 733,672	$ 6,159,574
Status of Budgetary Resources:		
New obligations and upward adjustments (total)	$ 9,316,143	$ 16,199,733
Unobligated balance, end of year:		
Apportioned, unexpired accounts	1,114,240	1,304,725
Exempt from apportionment, unexpired accounts (Note 1 A)	(9,715,020)	(11,374,243)
Unapportioned, unexpired account	18,105	29,117
Unexpired unobligated balance, end of year	(8,582,675)	(10,040,401)
Expired unobligated balance, end of year	204	242
Unobligated balance, end of year (total)	(8,582,471)	(10,040,159)
Total status of budgetary resources	$ 733,672	$ 6,159,574
Outlays, Net:		
Outlays, net (total) (discretionary and mandatory)	$ 10,271,908	$ 10,582,524
Distributed offsetting receipts (-)	(29,769)	(55,388)
Agency outlays, net (discretionary and mandatory)	$ 10,242,139	$ 10,527,136

The accompanying notes are an integral part of these statements.

Federal Communications Commission
Consolidated Statements of Custodial Activity
For the Years Ended September 30, 2020 and 2019
(Dollars in thousands)

	FY 2020	FY 2019
Total Custodial Revenue:		
Sources of Cash Collections:		
Spectrum Auctions	$ 10,291,811	$ 1,156,980
Fines and Penalties	63,343	7,746
Total Cash Collections	10,355,154	1,164,726
Accrual Adjustments (+/-)		
Spectrum Auctions	-	21,321
Fines and Penalties	4,504	424
Total Accrual Adjustments	4,504	21,745
Total Custodial Revenue (Note 16)	10,359,658	1,186,471
Disposition of Collections:		
Transferred to Others:		
U.S. Treasury	(2,786,204)	(9,040)
Public Safety Trust Fund (NTIA)	-	(1,155,251)
(Increase)/Decrease in Amounts Yet to be Transferred (+/-)	(4,356,742)	129,425
Refunds and Other Payments		
Auctions Salaries & Expenses (FCC) (Note 13)	(132,539)	(130,284)
Reverse Incentive Auction Winners	(3,084,173)	(21,321)
Total Disposition of Collections	(10,359,658)	(1,186,471)
Net Custodial Activity	$ -	$ -

The accompanying notes are an integral part of these statements.

Notes to the Principal Financial Statements

For the Years Ended September 30, 2020 and 2019
(Dollars in thousands unless otherwise stated)

Note 1 – Summary of Significant Accounting Policies

A. Reporting Entity

The Federal Communications Commission (Commission) is an independent United States Government agency, established by the Communications Act of 1934 (Act), as amended. The Commission is charged with regulating interstate and international communications by radio, television, wire, satellite, and cable. The Commission's jurisdiction spans the 50 states, the District of Columbia, and the U.S. possessions. The Commission is directed by five Commissioners who are appointed by the President of the United States and confirmed by the Senate for five-year terms, except when filling an unexpired term or serving in holdover status.

The Commission is comprised of three reporting components. The primary component consists of Commission headquarters and field offices. The two additional components are the Universal Service Fund (USF) and the Telecommunications Relay Service (TRS) Fund. The USF reports the results of the four Universal Service programs (established pursuant to section 254 of the Act, as amended), and will administer the newly established Connected Care Pilot Program (CCPP). Section 510 of Division C of the Consolidated Appropriations Act, 2020, P.L. 116–93, amended Section 302 of the Universal Service Antideficiency Temporary Suspension Act, Title III of P.L. 108-494, to extend the Universal Service programs exemption from the application of the provisions of the Antideficiency Act until December 31, 2020. Accordingly, USF is not subject to apportionment by the Office of Management and Budget (OMB). The TRS Fund was established by the Americans with Disabilities Act of 1990, Title IV and is not exempt from the Antideficiency Act and must be apportioned by OMB before funds are available for use. Prior to FY 2020 the TRS fund was reported together with the USF. Information regarding disclosure entities is separately disclosed in Note 18.

B. Basis of Accounting and Presentation

The consolidated and combined financial statements (financial statements) have been prepared from the accounting records of the Commission and its components, in conformity with U.S. generally accepted accounting principles (GAAP) and the form and content for Federal entity financial statements specified by OMB Circular No. A-136, *Financial Reporting Requirements—Revised*. Custodial activity reported on the Statement of Custodial Activity is prepared on the modified cash basis.

The preparation of financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the amounts reported in the financial statements. Actual results may differ from those estimates.

C. Classified Activities

Accounting standards require all reporting entities to disclose that accounting standards allow certain presentations and disclosures to be modified, if needed, to prevent the disclosure of classified information.

Note 1 – Summary of Significant Accounting Policies (continued)

D. Fund Balance with Treasury

Funds with the U.S. Department of the Treasury (Treasury) primarily represent general, revolving, special, and deposit funds. The Commission may use the general and revolving funds to finance expenses, depending on budgetary availability. The special funds are used to account for dedicated collections. The deposit funds are used to hold amounts temporarily until they can be properly disbursed or distributed.

E. Investments

Investments are reported at their acquisition cost, adjusted for amortization of premiums or discounts using the Effective Interest Method. All investments are in Treasury securities.

F. Accounts Receivable, Net

Accounts Receivable consists of claims made for payment from the public and other Federal entities. Gross receivables are reduced to net realizable value by an allowance for doubtful accounts.

The Commission's portion of the allowance for doubtful accounts is determined by applying predetermined percentages against the respective date the receivable was established. An additional analysis of higher dollar value receivables is also performed on individual account balances. As such, an additional allowance for doubtful accounts for the higher dollar value receivables may be recorded considering inherent uncertainties and risks.

The USF portion of the allowance is determined by calculating an estimated general allowance for doubtful accounts receivable. The general allowance is calculated by multiplying the receivable amounts by the percentage of the estimated uncollectible amount as determined by a review of historical collection rates by type of receivable.

The TRS portion of the allowance is based on estimated exposure to risk of nonpayment of billed balances, primarily based collection experience. The allowance includes reserves for identified bankruptcies, identified inactive contributors, contributors on appeal more than two years, delinquent amounts that are referred to the United States Treasury for collection, and other items. The TRS administrator periodically reviews the estimates and may change the assessment of recoverability based on actual results.

G. General Property, Plant and Equipment, Net

The basis for recording purchased General Property, Plant, and Equipment (PP&E) is full cost, including all costs incurred to bring the PP&E to and from a location suitable for its intended use. The capitalization threshold is $100 for PP&E and $200 for internally developed software with an estimated useful life of two years or more. There is no capitalization of bulk purchases of similar items. PP&E is depreciated on a straight-line basis over the estimated useful lives of the items.

Note 1 – Summary of Significant Accounting Policies (continued)

G. General Property, Plant and Equipment, Net (continued)

PP&E Classification	Estimated Useful Lives (years)
Building	40
Non-Computer Equipment	7
Computer & Vehicle Equipment	5
Software	3

Land, including permanent improvements, and software in development are not depreciated. Normal maintenance and repair costs are expensed as incurred.

Leasehold and building improvements, which includes all cost incurred during the design and construction phase of the improvement, are either amortized over the remaining life of the lease and building or the useful life of the improvement, whichever is shorter.

H. Other Assets

Other Assets with agencies represent advance payments for intragovernmental agreements. Other Assets with the public represent the balance of transfers less expenses made by the USF to USAC to fund administrative costs in advance. Advances are drawn down as expenses are incurred and a balance typically remains in this account for future expenses.

I. Accounts Payable and Accrued Liabilities

Accounts Payable and Accrued Liabilities represent a probable future outflow or other sacrifice of resources as a result of past transactions or events. Liabilities are recognized when they are incurred, regardless of whether they are covered by available budgetary resources. Liabilities cannot be liquidated without legislation that provides resources to do so. Payments of all liabilities other than contracts can be abrogated by the U.S. Government, which is a sovereign entity, and its components, which includes the Commission.

The USF and TRS expenses are non-exchange expenses. Accrued Liabilities for USF mostly represent liabilities recorded for anticipated subsidies in the Lifeline program, and for certain support mechanisms within the High Cost program and TRS Fund. The obligations are recognized for subsidies related to certain USF support mechanisms and a TRS program that includes: Mobility Fund Phase I, Connect America Fund (CAF) Phase II, CAF Phase II reverse auction (CAF II Auction), Rural Broadband Experiment, Alternative Connected America Model (A-CAM), A-CAM II, Alaska Plan, and TRS's National Deaf-Blind Equipment Distribution Program. For these USF support mechanisms and TRS program, an accrual is made to Accounts Payable instead of Accrued Liabilities. The Commission does not accrue for payments under the Schools & Libraries or Rural Health Care programs until potentially eligible costs pass through a thorough review process and the costs are approved for disbursement.

Similar to the USF Rural Health Care program, the expenses related to COVID-19 Emergency Telehealth Support (COVID-19 Telehealth) Program are non-exchange expenses. The Commission does not accrue payments under the COVID-19 Telehealth Program until submitted eligible expenses are approved for payment. Refer to Note 19 for more information. Accrued Liabilities for the TV Broadcaster Relocation Fund (TVBRF) represent liabilities for invoices received but not processed and for costs incurred but not invoiced related to relocation costs incurred by full power and Class A broadcasters that were reassigned

Note 1 – Summary of Significant Accounting Policies (continued)

I. Accounts Payable and Accrued Liabilities (continued)

to new channels as a result of the Broadcast Incentive Auction, as well as certain costs incurred by multichannel video program distributors (MVPDs), Television translator stations (LPTV/TV Translator) and by FM radio stations (FM stations). For this program, an accrued liability for invoices received but not processed and for costs incurred but not invoiced is made to Accounts Payable.

J. Deferred Revenue

The Commission collects proceeds from the sale of spectrum licenses on behalf of the U.S. Government. All proceeds collected up to the amount of the net winning bid are recognized as deferred revenue until a "prepared to grant" or "grant" public notice is issued.

In addition, the Commission collects multi-year regulatory fees for five and ten-year periods that are recorded as deferred revenue and amortized over the period of the fee.

The TRS collects contributions from telecommunications carriers to cover the costs of the programs. Some carriers have the option of paying monthly or annually. The unearned portion of annual contributions is recognized as deferred revenue.

K. Retirement Plans and Other Benefits

Federal employee benefits consist of the actuarial portion of future benefits earned by Federal employees, including pensions, other retirement benefits, and other post-employment benefits. The Office of Personnel Management (OPM) administers these benefits. The Commission does not recognize any liability on the Balance Sheet for pensions, other retirement benefits, and other post-employment benefits. The Commission recognizes and allocates the imputed costs on the Statement of Net Cost and recognizes imputed financing related to these costs on the Statement of Changes in Net Position.

Pensions provide benefits upon retirement and may also provide benefits for death, disability, or other separations from employment before retirement. Pension plans may also include benefits to survivors and dependents, and they may contain early retirement or other special features. Most Commission employees participate in the Civil Service Retirement System (CSRS), the Federal Employee Retirement System (FERS), the FERS-Revised Annuity Employee (FERS-RAE), or the FERS-Further Revised Annuity Employee (FERS-FRAE). Under CSRS, the Commission makes matching contributions equal to seven percent (7%) of basic pay. Under all FERS plans, the Commission contributes the employer's matching share for Social Security. All employees are eligible to contribute to the Thrift Savings Plan (TSP), which is a defined contribution retirement savings and investment plan. For those employees covered by the FERS plans, a TSP account is automatically established to which the Commission is required to contribute one percent (1%) of gross pay, match dollar-for-dollar on the first three percent (3%) of pay contributed each pay period, and match 50 cents on the dollar for the next two percent (2%) of pay contributed. No government contributions are made to the TSP accounts established by CSRS employees. Most employees hired after December 31, 1983, are covered by the FERS plans.

OPM reports on CSRS, FERS, FERS-RAE, and FERS-FRAE assets, accumulated plan benefits, and unfunded liabilities, if any, applicable to Federal employees. The actuarial liability for future workers' compensation benefits payable includes the expected liability for death, disability, medical, and

Note 1 – Summary of Significant Accounting Policies (continued)

K. Retirement Plans and Other Benefits (continued)

miscellaneous costs for approved compensation cases, as well as a component for incurred but not reported claims. The liability is determined using historical benefit payment patterns related to injury years to predict the ultimate payment.

The unfunded Federal Employees' Compensation Act (FECA) liability covers compensation and medical benefits for work related injury. The calculation takes the amount of benefit payments over the last nine to twelve quarters and then calculates the annual average of payments. The compensation and medical payments can be found in the chargeback reports that are issued by the Department of Labor.

L. Leave

Annual leave is accrued as earned, and the accrual is reduced as leave is taken. Each year, the balance in the accrued annual leave account is adjusted to reflect current leave balances and pay rates. Annual leave is reflected as a liability not covered by current budgetary resources. Sick leave and other types of non-vested leave are expensed as taken.

M. Exchange Revenue and Financing Sources

Regulatory Fee Offsetting Collections (Exchange) – Pursuant to 47 U.S.C. § 159, the Commission assesses and collects regulatory fees to recover the costs incurred in carrying out its mission through its strategic goals: Closing the Digital Divide; Promoting Innovation; Protecting Consumers and Public Safety; and Reforming the FCC's Processes. Since 1993, Congress has annually reviewed the regulatory fee collection requirements of the Commission and established the total fee levels to be collected in annual Appropriations Acts. Fees collected up to the level established by Congress are applied against the Commission's appropriation at the close of each fiscal year. The Repack Airwaves Yielding Better Access for Users of Modern Services Act of 2018 (RAY BAUM'S Act), Division P of P.L. 115-141, requires the Commission to transfer all excess regulatory fee collections from prior and subsequent fiscal years to the General Fund of the Treasury for the sole purpose of deficit reduction. The Commission collected the appropriated regulatory fee levels of $339,000 for FY 2020 and FY 2019. The Commission also collected $6,310 above the required regulatory level in FY 2020 and $13,732 above the required level in FY 2019. As of September 30, 2020, the Commission transferred inception to date excess regulatory fee collections totaling $141,269 to the Treasury.

Competitive Bidding System Offsetting Collections (Exchange) – One of the Commission's primary functions is managing the spectrum auctions program. Proceeds from the auctions are initially remitted to the Commission and are later transferred either to the Treasury or to the appropriate agency as required by applicable laws. Pursuant to 47 U.S.C. § 309, the Commission may retain a portion of the spectrum auction proceeds to offset the cost of performing the auction function. Collections used to offset the cost of performing auctions-related activity were appropriated at $132,539 for FY 2020 and $130,284 for FY 2019.

Radio Spectrum Auction Proceeds (Exchange) – In accordance with the provisions of Statement of Federal Financial Accounting Standards (SFFAS) 7, *Accounting for Revenue and Other Financing Sources,* the Commission accounts for this exchange revenue as a custodial activity. Revenue from spectrum auctions is recognized when a "prepared to grant" or "grant" public notice is issued. The value of available spectrum is determined in the marketplace at the time of auction. The Commission recognized $10,291,811 of custodial revenue (net of accrual adjustments) related to spectrum auctions in FY 2020 and $1,178,301 in

Note 1 – Summary of Significant Accounting Policies (continued)

M. Exchange Revenue and Financing Sources (continued)

FY 2019. In FY 2020, the Commission transferred $2,725,238 to the Treasury General Fund. In FY 2019, the Commission transferred $1,155,251 of custodial revenue from the Broadcast Incentive Auction (BIA) to the Public Safety Trust Fund, and $1,295 from other spectrum auctions to the Treasury General Fund.

Application Fees (Exchange) – Pursuant to 47 U.S.C. § 158, the Commission collects application processing fees at such rates as the Commission establishes in a schedule of application fees to recover the costs of the Commission to process applications. Subparagraph b of section 158 requires the Commission to review and amend its schedule of application fees every two years based on the net change in the Consumer Price Index calculated over a specific period of time. Application fees are deposited in the Treasury and are not available for the Commission's use. Application fee revenue totaled $24,947 in FY 2020 and $22,594 in FY 2019. The RAY BAUM'S Act amended 47 U.S.C. § 158 with an effective date of October 1, 2018. Congress provided that application fees in effect before the effective date October 1, 2018 shall remain in effect until the Commission adjusts or amends such fees. The most recent Order increasing application fees to reflect changes in the CPI index was adopted by the Commission on August 12, 2020 and released on August 26, 2020.

Reimbursable Work Agreements (Exchange) – The Commission recognizes reimbursable work agreement revenue when earned, i.e., goods that have been delivered or services rendered. The Commission executed agreements totaling $1,294 in FY 2020 and $856 in FY 2019.

Allocation of Exchange Revenues – The Commission reports the entire balance of exchange revenue on the line "Less: earned revenues not attributed to programs" since there is no direct relationship between earned revenues and specific programs.

USF and TRS (Financing Source) – Carriers conducting interstate telecommunications are required to contribute a portion of their revenues to fund the cost of providing universal service programs and Telecommunications Relay Service. These contributions represent dedicated collections and are accounted for as a budgetary financing source. Contributions of $7,806,448 were received by USF and $1,454,989 were received by TRS in FY 2020. Contributions of $8,323,010 were received by USF and $1,474,191 were received by TRS in FY 2019. For more information, refer to Note 10.

Appropriations (Financing Source) – The Commission receives a Salaries and Expense appropriation from Congress. These funds are used to pay for operations during the fiscal year and are repaid to the Treasury once regulatory fees are collected. Since FY 2014, Congress has authorized the Commission to retain its appropriation as available until expended. The Commission's no-year appropriations were $339,000 for FY 2020 and FY 2019. In FY 2020, Division B - Emergency Appropriations For Coronavirus Health Response And Agency Operations, Title V of the Coronavirus Aid, Relief, and Economic Security (CARES) Act authorized the Commission to provide $200,000 appropriated by Congress to help health care providers provide Telehealth services to patients at their homes or mobile locations in response to the COVID-19 pandemic. Regulatory fee collections fully funded the non-CARES Act no-year appropriations for FY 2020 and FY 2019.

Subsidy Estimates and Re-estimates (Financing Source) – The Fair Credit Reporting Act (FCRA) of 1990, as amended, governs the reporting requirements for direct loan obligations made after FY 1991. As required, the Commission coordinates with OMB in developing estimation guidelines, regulations, and the criteria used in calculating the subsidy estimates and re-estimates.

Note 1 – Summary of Significant Accounting Policies (continued)

M. Exchange Revenue and Financing Sources (continued)

The last active loan matured in April 2007, and the Commission wrote off all remaining loans in FY 2013. As a result, no material activity related to direct loans has occurred in FY 2020 and FY 2019, and the Commission is working with OMB to close-out the Credit Reform Program. The most recent subsidy re-estimate was completed in September 30, 2015; OMB waived the requirement to perform a subsidy re-estimate in FY 2020 and FY 2019.

N. Reprogramming

For the years ended September 30, 2020 and 2019, the Commission did not request any reprogramming of prior year de-obligated funds.

O. Net Position

Net Position is the residual difference between assets and liabilities and is comprised of Unexpended Appropriations and Cumulative Results of Operations. Unexpended Appropriations represents the amount of unobligated and unexpended budget authority. Unobligated Balance is the amount of appropriations or other authority remaining after deducting the cumulative obligations from the amount available for obligation. Cumulative Results of Operations is the net difference since the inception of the Commission of (1) expenses and losses and (2) financing sources including appropriations used, revenues, and gains. Net position of funds from dedicated collections is separately disclosed in Note 10.

P. Broadcast Incentive Auction

The Broadcast Incentive Auction (BIA) was authorized by provisions in Title VI of the Middle Class Tax Relief and Job Creation Act of 2012, P.L. 112-96 (Spectrum Act). The Spectrum Act established the funding of the TVBRF at $1,750,000. The Spectrum Act requires the Commission to reimburse relocation costs reasonably incurred by full power and Class A broadcasters and MVPDs that were involuntarily reassigned to new channels as a result of the BIA.

Section 511 of Title V of Division E of the Consolidated Appropriations Act, 2018, P.L. 115-141, also known as the Reimbursement Expansion Act (REA), appropriated an additional $1,000,000 in new funding for the TVBRF, which increased its cap to $2,750,000 and also expanded the universe of entities eligible for reimbursement to cover the costs reasonably incurred by displaced LPTV/TV Translator to relocate or modify their facilities, and by FM stations to reasonably minimize disruption of their services due to the TV repacking process.

The additional $1,000,000 in new funding was appropriated over two fiscal years, $600,000 in FY 2018 and $400,000 in FY 2019. For FY 2018, the REA provides for funding of not more than $350 million to reimburse full power and Class A stations, not more than $150 million for LPTV/TV Translator, and not more than $50 million for FM stations to reimburse such stations for their costs. The REA also provides $50 million in FY 2018 funds for the Commission to use for consumer education relating to the reorganization of broadcast television. The REA does not expressly delineate the use of FY 2019 funds among the various categories of eligible recipients. In implementing the REA for the new universe of entities eligible for reimbursement, the Commission determined in the *REA Report & Order*, adopted March 15, 2019, that reimbursement of full power and Class A stations and MVPDs would be prioritized

Note 1 – Summary of Significant Accounting Policies (continued)

P. Broadcast Incentive Auction (continued)

over reimbursement of LPTV/TV Translator and FM stations. As of September 30, 2020, the Commission made a total allocation of $2,017,832 for eligible full power and Class A broadcasters, MVPDs, LPTV/TV Translators and FM stations.

Accrued Liabilities are recorded in the TVBRF for invoices received but not processed and for costs incurred but not invoiced. As of September 30, 2020, an accrued accounts payable of $416,556 was recorded for the full power and Class A broadcasters, MVPDs, LPTV/TV Translators and FM stations.

Q. Connect America Fund Phase II Auction

After completing the Connect America Fund Phase II reverse auction (CAF II Auction), the FCC committed to award a potential total of $1,488,330 over a 10-year period. As of September 30, 2020, the FCC has directed USAC to obligate a total of $1,476,555 for carriers who have successfully complied with the requirements to be eligible to receive support to provide fixed broadband and voice services to over 700,000 locations in 45 states. There is total amount of $3,999 bids in default as of September 30, 2020, leaving a balance of $7,776 to be obligated. In addition, the FCC committed to award a potential total of $170,400 to carriers that won the CAF II New York Auction over a 10-year period. As of September 30, 2020, FCC has directed USAC to obligate a total amount of $63,088, with remaining balance of $107,312 to be obligated.

R. Comparison and Other

Prior to FY 2020, the USF included the four Universal Service support mechanisms and the TRS Fund. The combined operational results were presented under Treasury Account 027X5183 for FY 2019 and had been presented this way in prior years as well. Beginning in FY 2020, USF continued to be reported under Treasury Account 027X5183; however, TRS was reported separately under its own Treasury Account 027X5700 that was approved by OMB.

Certain FY 2019 amounts have been reclassified to conform to the FY 2020 presentation.

Note 2 – Non-entity Assets

The following summarizes Non-entity Assets as of September 30, 2020 and 2019:

	FY 2020	FY 2019
Intragovernmental:		
Fund Balance with Treasury	$ 10,695,711	$ 6,108,348
Accounts Receivable, Net	352	351
Total Intragovernmental	10,696,063	6,108,699
Accounts Receivable, Net	21,396	15,601
Total Non-entity Assets	10,717,459	6,124,300
Total Entity Assets	8,959,542	9,685,906
Total Assets	$ 19,677,001	$ 15,810,206

Note 2 – Non-entity Assets (continued)

Non-entity Fund Balance with Treasury (FBWT) primarily represents auction deposits. Accounts receivable considered non-entity include regulatory fees, application fees, fines and forfeitures, spectrum auctions, and International Telecommunications Settlement (ITS) charges.

Note 3 – Fund Balance with Treasury

The following summarizes FBWT as of September 30, 2020 and 2019:

	FY 2020	FY 2019
Unobligated Balance		
Available	$ (8,600,781)	$ (10,367,548)
Unavailable	35,405	46,456
Obligated Balance not yet Disbursed	16,656,961	18,729,441
Non-Budgetary FBWT	10,695,711	6,108,348
Total	$ 18,787,296	$ 14,516,697

The FBWT includes general funds, revolving funds, special funds, and deposit funds.

General Funds – Includes the salaries and expense appropriation used to fund agency operations, COVID-19 Telehealth Program, the auction and reimbursable accounts, the credit reform program account, other no-year accounts used to carry over spectrum auction funds, offsetting collections, excess regulatory fees, and the Office of Inspector General USF funds.

Revolving Funds – Includes the credit reform financing account used to record cash flows associated with the Commission's spectrum auction loan program.

Special Funds – Includes funds from TVBRF, USF and TRS fund. TVBRF is for relocation costs reasonably incurred by full power and Class A broadcasters, MVPDs, LPTV, TV Translator, FM stations who were involuntarily reassigned to new channels or incur reimbursable expenses as a result of the BIA, and for consumer education relating to the reorganization of broadcast television. Universal Service funds are for the four USF programs and the CCPP. The USF programs are exempt from the application of the provisions of the Antideficiency Act by Congress through December 31, 2020 and are not subject to an apportionment by OMB. In May 2018, USAC began moving USF funds held in a private banking institution to an account within Treasury and as of September 30, 2019, USAC completed the transfer. In FY 2020, the TRS funds were moved to a newly established account within the Treasury.

Deposit Funds – Includes monies being held for spectrum auctions, ITS, and regulatory fees. Deposit funds are non-budgetary and are not available for use by the Commission unless they are properly identified or reclassified as Commission funds. Otherwise, these funds are returned to the depositor or transferred to the Treasury General Fund or other Federal agencies.

Note 4 – Investments

All Treasury securities, regardless of their maturity date, are reported as investments. The Commission held all investments to maturity; therefore, no adjustments have been made to present market value in FY 2020 and FY 2019.

As of September 30, 2019, USAC completed the transfer. In FY 2020, the TRS funded securities matured and were moved to a newly established account within the Treasury.

There were no Investments held by the Commission as of September 30, 2020. The following table summarizes Investments as of September 30, 2020 and 2019:

FY 2020	Purchase Cost	Amortization Method	Amortized (Premium) Discount	Interest Receivable	Investments Net	Other Adjustments	Market Value Disclosures
Intragovernmental Securities							
Marketable Securities							
Treasury Bills	$ -	EI	$ -	$ -	$ -	$ -	$ -
Total	$ -	EI	$ -	$ -	$ -	$ -	$ -

FY 2019	Purchase Cost	Amortization Method	Amortized (Premium) Discount	Interest Receivable	Investments Net	Other Adjustments	Market Value Disclosures
Intragovernmental Securities							
Marketable Securities							
Treasury Bills	$307,224	EI	$ 675	$ -	$307,899	$ -	$307,224
Total	$307,224	EI	$ 675	$ -	$307,899	$ -	$307,224

EI – Effective Interest Method

Note 5 – Accounts Receivable, Net

The following summarizes Accounts Receivable, Net as of September 30, 2020 and 2019:

FY 2020	Intragovernmental	Public	Total
Gross Accounts Receivable	$ 439	$ 1,643,561	$ 1,644,000
Allowance for Doubtful Accounts	-	(855,060)	(855,060)
Accounts Receivable, Net	$ 439	$ 788,501	$ 788,940

FY 2019	Intragovernmental	Public	Total
Gross Accounts Receivable	$ 449	$ 1,737,588	$ 1,738,037
Allowance for Doubtful Accounts	-	(844,267)	(844,267)
Accounts Receivable, Net	$ 449	$ 893,321	$ 893,770

Note 5 – Accounts Receivables, Net (continued)

The following summarizes accounts receivable by type as of September 30, 2020 and 2019:

FY 2020	Accounts Receivable	Allowance	Net
USF	$ 1,023,679	$ (314,298)	$ 709,381
COMAD - Schools and Libraries	193,569	(187,826)	5,743
TRS	122,068	(71,095)	50,973
Regulatory Fees	34,457	(21,350)	13,107
Spectrum Auction	8,680	(8,680)	-
Civil Monetary Penalties	250,023	(244,980)	5,043
Other	11,524	(6,831)	4,693
Total	$ 1,644,000	$ (855,060)	$ 788,940

FY 2019	Accounts Receivable	Allowance	Net
USF	$ 1,082,561	$ (295,932)	$ 786,629
COMAD - Schools and Libraries	198,982	(190,459)	8,523
TRS	147,188	(65,346)	81,842
Regulatory Fees	33,717	(21,902)	11,815
Spectrum Auction	8,680	(8,680)	-
Civil Monetary Penalties	255,212	(254,368)	844
Other	11,697	(7,580)	4,117
Total	$ 1,738,037	$ (844,267)	$ 893,770

The Commitment Adjustment (COMAD) for Schools and Libraries audit receivables are subject to appeal and are not considered final until the appeals period has lapsed, or a final determination has been issued.

The COMAD receivables for Schools and Libraries recorded an allowance rate of 97% in FY 2020 and 96% in FY 2019.

The TRS accounts receivables includes $9,047 of gross receivables pertaining to criminal restitution for the TRS. The TRS estimated the net realizable value of criminal restitution receivable to be zero and recorded an allowance for the full amount of the receivable.

The Commission expects to collect 100% of intragovernmental receivables and no allowance is recorded.

Note 6 – General Property, Plant and Equipment, Net

OMB Circular No. A-136, *Financial Reporting Requirements—Revised* indicates that comparative presentation for the prior year is not required in the initial year of implementation. The following table summarizes total PP&E and accumulated depreciation for the period ended September 30, 2020.

Note 6 – General Property, Plant and Equipment, Net (continued)

	FY 2020 Net PP&E
Balance beginning of year	$ 72,138
Capitalized acquisitions	28,894
Depreciation expense	(21,154)
Balance at end of year	$ 79,878

Note 7 – Liabilities Not Covered by Budgetary Resources

The following summarizes Liabilities Not Covered by Budgetary Resources as of September 30, 2020 and 2019:

	FY 2020	FY 2019
Intragovernmental:		
FECA Liability	$ 486	$ 548
Total Intragovernmental	486	548
Actuarial FECA Liability	3,019	3,118
Other:		
Unfunded Leave	23,555	18,083
Energy Savings Performance Contract	7,027	7,114
Accrued Liabilities for Universal Service	483,329	489,926
Total liabilities not covered by budgetary resources	517,416	518,789
Total liabilities covered by budgetary resources	1,002,910	811,270
Total liabilities not requiring budgetary resources	10,704,354	6,112,868
Total Liabilities	$ 12,224,680	$ 7,442,927

Liabilities not covered by budgetary resources are liabilities incurred that are not covered by realized budgetary resources as of the Consolidated Balance Sheet date.

Liabilities not requiring budgetary resources are liabilities that have not in the past required, and will not in the future require, the use of budgetary resources.

Note 8 – Other Liabilities

The following summarizes Other Liabilities as of September 30, 2020 and 2019:

FY 2020	Non-Current	Current	Total
Intragovernmental			
Liability to the General Fund and Other Non-Entity Assets	$ -	$ 7,738,740	$ 7,738,740
Other	-	3,553	3,553
Total Intragovernmental	$ -	$ 7,742,293	$ 7,742,293
Deferred Revenue	$ 23,951	$ 2,973,928	$ 2,997,879
Prepaid Contributions	-	108,399	108,399
Accrued Liabilities for USF and TRS	-	483,329	483,329
Other	6,570	44,809	51,379
Total Other	$ 30,521	$ 3,610,465	$ 3,640,986

FY 2019	Non-Current	Current	Total
Intragovernmental			
Liability to the General Fund and Other Non-Entity Assets	$ -	$ 3,381,997	$ 3,381,997
Other	-	3,214	3,214
Total Intragovernmental	$ -	$ 3,385,211	$ 3,385,211
Deferred Revenue	$ 24,580	$ 2,743,397	$ 2,767,977
Prepaid Contributions	-	57,155	57,155
Accrued Liabilities for USF and TRS	-	489,926	489,926
Other	6,666	34,723	41,389
Total Other	$ 31,246	$ 3,325,201	$ 3,356,447

The Liability to the General Fund and Other Non-Entity Assets includes both cash collected, and net accounts receivable being held for transfer to the Treasury General Fund or other Federal agencies. In FY 2019, the presentation for Custodial liability was revised and included into the line "The Liability to the General Fund and Other Non-Entity Assets." The Commission collects the following types of custodial revenue: spectrum auction revenue, fines and forfeitures revenue, penalty revenue on regulatory fees, and ITS processing fees. Deferred revenue represents multi-year regulatory fees, spectrum auction revenue, or contributor payments that have been received but not earned by the Commission.

Prepaid Contributions include USF and TRS contribution overpayments that may be refunded or used to offset future payments. Accrued Liabilities for USF and TRS primarily represent anticipated future payments for the Lifeline program, and certain support mechanisms within the High Cost program and Telecommunications Relay Service. The obligations for these subsidies are not recognized until payment files are approved in the subsequent month. Remaining Other Liabilities primarily represent anticipated payments related to payroll and other services, Energy Saving Performance Contract, and funds received that are being held until proper application is determined.

Note 9 – Commitments and Contingencies

The Commission is a party in various administrative proceedings, legal actions, and claims brought by or against the agency. The Commission, USAC, and the Department of Justice are investigating several cases and prosecuting others related to disbursements of Universal Service funds from its programs which might result in future proceedings or actions. Similarly, the Commission, RL, and the Department of Justice are investigating several cases related to the TRS funds. The complexity of these future actions precludes management from estimating the total amount of recovery that may result.

The Commission has examined its obligations related to cancelled authority and believes it has no outstanding commitments requiring future resources other than those as disclosed in Note 7. In addition, there are certain operating leases and contracts that may contain provisions regarding contract termination costs upon early contract termination. In the management's opinion, early contract termination will not materially affect the Commission's consolidated financial statements.

As of September 30, 2020, the likelihood of an unfavorable outcome on all current legal cases is considered remote and no additional disclosure is needed.

Note 10 – Funds from Dedicated Collections

The telecommunications companies in the U.S. are obligated to make contributions to the USF and the TRS Fund. These contributions were accounted for in the Budget of the U.S. Government as the "Universal Service Fund" for FY 2019 and prior years. The TRS numbers are reported under a separate account starting FY 2020. The Commission currently recognizes the contributions collected under the USF and TRS as Non-exchange revenue on its Statement of Changes in Net Position, and the related disbursements as program expenses on the Statement of Net Cost.

As previously discussed, the Spectrum Act requires the Commission to reimburse relocation costs reasonably incurred by full power and Class A broadcasters and MVPDs who are involuntarily reassigned to new channels as a result of the BIA. In FY 2018, Congress appropriated additional funding and also expanded the universe of entities eligible for reimbursement. These reimbursement costs are accounted for in the U.S. Budget as the "TV Broadcaster Relocation Fund," which is funded by forward auction proceeds and direct appropriations. The Commission recognized the reimbursement costs for the TVBRF as program expenses on the Statement of Net Cost.

The Commission had no activity related to Gifts and Bequests in FY 2020 and FY 2019.

The following pages summarize the significant assets, liabilities, and costs incurred related to the TVBRF, USF and TRS as of September 30, 2020 and 2019.

Note 10 – Funds from Dedicated Collections (continued)

FY 2020	TVBRF	USF	TRS	Total Funds from Dedicated Collections
Balance Sheet as of September 30, 2020				
Assets:				
Intragovernmental:				
Fund Balance with Treasury	$ 1,407,813	$ 5,911,691	$ 377,572	$ 7,697,076
Investments, net	-	-	-	-
Total intragovernmental assets	1,407,813	5,911,691	377,572	7,697,076
Cash and other monetary assets	-	-	-	-
Accounts receivable, net	572	715,124	51,020	766,716
General property, plant, and equipment, net	-	16,441	-	16,441
Other assets	-	18,024	-	18,024
Total assets	$ 1,408,385	$ 6,661,280	$ 428,592	$ 8,498,257
Liabilities:				
With public:				
Accounts payable	$ 420,132	$ 361,758	$ 6,111	$ 788,001
Deferred revenue	-	-	8,899	8,899
Prepaid contributions	-	105,435	2,964	108,399
Accrued liabilities	-	251,982	231,347	483,329
Total liabilities	$ 420,132	$ 719,175	$ 249,321	$ 1,388,628
Unexpended Appropriations	$ 857,848	$ -	$ -	$ 857,848
Cumulative results of operations	130,405	5,942,105	179,271	6,251,781
Total liabilities and net position	$ 1,408,385	$ 6,661,280	$ 428,592	$ 8,498,257
Statement of Net Cost for the Year Ended September 30, 2020				
Net cost of operations	$ 641,434	$ 8,231,849	$ 1,430,314	$ 10,303,597
Statement of Changes in Net Position for the Year Ended September 30, 2020				
Unexpended Appropriations				
Total Unexpended Appropriations	$ 857,848	$ -	$ -	$ 857,848
Cumulative results from operations				
Beginning Balances	646,735	6,358,074	153,804	7,158,613
Appropriations used	125,104	-	-	125,104
Non-exchange revenue	-	7,815,880	1,455,781	9,271,661
Net cost of operations	641,434	8,231,849	1,430,314	10,303,597
Change in net position	(516,330)	(415,969)	25,467	(906,832)
Cumulative results of operations	130,405	5,942,105	179,271	6,251,781
Net position	$ 988,253	$ 5,942,105	$ 179,271	$ 7,109,629

Note 10 – Funds from Dedicated Collections (continued)

FY 2019	TVBRF	USF	TRS	Total Funds from Dedicated Collections
Balance Sheet as of September 30, 2019				
Assets:				
Intragovernmental:				
Fund Balance with Treasury	$ 1,953,849	$ 6,200,654	$ -	$ 8,154,503
Investments	-	-	307,899	307,899
Total intragovernmental assets	1,953,849	6,200,654	307,899	8,462,402
Cash and other monetary assets	-	-	5,437	5,437
Accounts receivable, net	297	794,522	82,841	877,660
General property, plant, and equipment, net	-	23,571	-	23,571
Other assets	-	13,024	-	13,024
Total assets	$ 1,954,146	$ 7,031,771	$ 396,177	$ 9,382,094
Liabilities:				
With public:				
Accounts payable	$ 324,459	$ 351,685	$ 7,130	$ 683,274
Deferred revenue	-	-	10.174	10,174
Prepaid contributions	-	55,834	1.321	57,155
Accrued liabilities	-	266,178	223,748	489,926
Total liabilities	$ 324,459	$ 673,697	$ 242,373	$1,240,529
Unexpended Appropriations	$ 982,952	$ -	$ -	$ 982,952
Cumulative results of operations	646,735	6,358,074	153,804	7,158,613
Total liabilities and net position	$ 1,954,146	$ 7,031,771	$ 396,177	$ 9,382,094
Statement of Net Cost for the Period Ended September 30, 2019				
Net cost of operations	$ 681,827	$ 8,714,838	$ 1,368,255	$10,764,920
Statement of Changes in Net Position for the Period Ended September 30, 2019				
Unexpended Appropriations				
Total Unexpended Appropriations	$ 982,952	$ -	$ -	$ 982,952
Cumulative results from operations				
Beginning Balances	1,311,514	6,723,104	42,641	8,077,259
Appropriations used	17,048	-	-	17,048
Non-exchange revenue	-	8,349,808	1,479,418	9,829,226
Net cost of operations	681,827	8,714,838	1,368,255	10,764,920
Change in net position	(664,779)	(365,030)	111,163	(918,646)
Cumulative results of operations	646,735	6,358,074	153,804	7,158,613
Net position	$ 1,629,687	$ 6,358,074	$ 153,804	$ 8,141,565

Note 10 – Funds from Dedicated Collections (continued)

The FY 2020 and FY 2019 funds from dedicated collections are presented on a combined basis. The tables below summarize the elimination of activities between dedicated collections and all other fund types to arrive at the consolidated assets and liabilities as presented on the balance sheet.

	Dedicated Collections Combined	All Other Amounts (with Eliminations)	Total Combined	Consolidating Eliminations Between Dedicated & All Other	Consolidated
FY 2020					
Assets with public					
Accounts Receivable, Net	$ 766,716	$ 21,834	$ 788,550	$ (49)	$ 788,501
Liabilities with public					
Other	$ -	$ 51,428	$ 51,428	$ (49)	$ 51,379

	Dedicated Collections Combined	All Other Amounts (with Eliminations)	Total Combined	Consolidating Eliminations Between Dedicated & All Other	Consolidated
FY 2019					
Assets with public					
Accounts Receivable, Net	$ 877,660	$ 16,413	$ 894,073	$ (752)	$ 893,321
Liabilities with public					
Other	$ -	$ 42,141	$ 42,141	$ (752)	$ 41,389

Note 11 – Inter-Entity Costs

Goods and services are received from other federal entities at no cost or at a cost less than the full cost to the providing federal entity. Consistent with accounting standards, certain costs of the providing entity that are not fully reimbursed by the Commission are recognized as imputed cost in the Statement of Net Cost and are offset by imputed revenue in the Statement of Changes in Net Position. Such imputed costs and revenues relate to employee benefits. However, unreimbursed costs of goods and services other than those identified above are not included in our financial statements.

Note 12 – Undelivered Orders at the End of the Period

The amount of budgetary resources obligated for undelivered orders totaled $15,823,352 as of September 30, 2020 and $18,045,870 as of September 30, 2019. The following summarizes Undelivered Orders as of September 30, 2020 and 2019:

FY 2020	Federal	Non-Federal	Total
Undelivered Orders-Unpaid	$ 17,969	$ 15,784,496	$ 15,802,465
Undelivered Orders-Paid	2,863	18,024	20,887
Total	$ 20,832	$ 15,802,520	$ 15,823,352

Note 12 – Undelivered Orders at the End of the Period (continued)

FY 2019	Federal	Non-Federal	Total
Undelivered Orders-Unpaid	$ 3.333	$ 18,028,272	$ 18,031,605
Undelivered Orders-Paid	1,241	13,024	14,265
Total	$ 4.574	$ 18,041,296	$ 18,045,870

Note 13 – Permanent Indefinite Appropriations

The Commission has permanent indefinite appropriations available to fund its universal service programs and Telecommunications Relay Services, subsidy costs incurred under credit reform programs, and the development and implementation costs related to the competitive auction program.

Pursuant to 47 U.S.C. § 254 and § 225, the FCC has a permanent indefinite appropriation to fund its universal service programs including the TRS Fund. These programs operate by collecting mandatory contributions from telecommunications carriers providing interstate telecommunications services, and from other providers of interstate telecommunications required to contribute if the public interest so requires. For Federal budgetary purposes, these contributions were accounted for as a special fund known as the Universal Service Fund for FY 2019 and prior years. Starting in FY 2020 the TRS is reported separately under its own account.

Credit reform is mainly available to finance any disbursements incurred under the liquidating accounts. These appropriations become available pursuant to standing provisions of law without further action by Congress after transmittal of the budget for the year involved. They are treated as permanent the first year they become available, as well as in succeeding years. However, they are not stated as specific amounts but instead are determined by specified variable factors, such as cash needs for liquidating accounts, and information about the actual performance of a cohort or estimated changes in future cash flows of the cohort in the program accounts.

Pursuant to 47 U.S.C. § 309(j)(8)(B), the FCC can retain proceeds from spectrum auctions for amounts that may be necessary for the costs of developing and implementing the competitive auction program. These retained proceeds are offsetting collections that remain available until expended. Notwithstanding 47 U.S.C. § 309(j)(8)(B), for FY 2020 Congress limited the amount of the auction proceeds that may be retained and made available for obligation to $132,539.

Note 14 – Legal Arrangements Affecting Use of Unobligated Balances

Offsetting collections received in excess of $339,000 in FY 2020 and FY 2019 are precluded from obligation. In addition, the RAY BAUM'S Act requires the Commission to transfer all excess regulatory fees collected from prior and subsequent fiscal years to the Treasury General Fund for the sole purpose of deficit reduction.

Note 15 – Explanation of Differences between the Statement of Budgetary Resources and the Budget of the U.S. Government

There were no material differences between the Combined Statement of Budgetary Resources (SBR) for FY 2019 and the amounts presented in the FY 2021 Budget of the United States Government. The FY 2022 Budget of the United States Government, which will include actual numbers for FY 2020, has not been published at this time. Pursuant to 31 USC § 1105, the Budget of the United States Government will be released not later than the first Monday in February and will be available at the following website: https://www.whitehouse.gov/omb/budget/.

Note 16 – Custodial Revenues

In accordance with the provisions of SFFAS 7, *Accounting for Revenue & Other Financing Sources*, the Commission collects non-exchange revenues related to miscellaneous receipts and fines and forfeitures to be deposited in the Treasury General Fund. Fines and Forfeitures are made up of consent decrees and forfeiture orders. Forfeiture orders are probable, measurable, and legally enforceable claims, but need to result in a judgement issued by a Federal court before they become legally collectible debts. OMB Circular No. A-136, *Financial Reporting Requirements—Revised* indicates that comparative presentation for the prior year is not required in the initial year of implementation. The following table summarizes custodial non-exchange collections for the period ended September 30, 2020. There were no material refunds issued for the period ended September 30, 2020.

Non-Exchange Revenue	Current Year Collections
Fines, penalties and other revenue	$ 63,343
Less: amount collected for non-federal entities	(63,343)
Total amount of federal revenues collected	$ -

Collections for prior periods were not material.

Consent decrees are legally collectible debts. Additionally, the Commission reports exchange revenue associated with radio spectrum auction proceeds on the Statement of Custodial Activity. For more information, refer to Note 1 M.

Note 17 – Reconciliation of Net Cost to Net Outlays

Budgetary and financial accounting information differ. Budgetary accounting is used for planning and control purposes and relates to both the receipt and use of cash, as well as reporting the federal deficit. Financial accounting is intended to provide a picture of the government's financial operations and financial position, so it presents information on an accrual basis. The accrual basis includes information about costs arising from the consumption of assets and the incurrence of liabilities. The reconciliation of net outlays, presented on a budgetary basis, and the net cost, presented on an accrual basis, provides an explanation of the relationship between budgetary and financial accounting information. The reconciliation serves not only to identify costs paid for in the past and those that will be paid in the future, but also to assure integrity between budgetary and financial accounting.

The following analysis illustrates this reconciliation by listing the Commission's key differences between net cost and net outlays for the reporting period as of September 30, 2020 and 2019.

Note 17 – Reconciliation of Net Costs to Net Outlays (continued)

FY 2020	Intra-governmental	With the Public	Total
Net Cost of Operations	$ 122,024	$ 10,245,008	$ 10,367,032
Components of Net Operating Cost Not Part of the Budgetary Outlays:			
Property, plant, and equipment depreciation	-	(21,154)	(21,154)
Increase/(Decrease) in Assets not affecting Budget Outlays:			
Accounts receivable	98	18,465	18,563
Other assets	1,622	5,000	6,622
Investments	-	(675)	(675)
(**Increase)/Decrease in Liabilities not affecting Budget Outlays:**			
Accounts payable	(9,712)	(130,520)	(140,232)
Salaries and benefits	(402)	(1,386)	(1,788)
Other liabilities (Unfunded leave, unfunded FECA, actuarial FECA)	62	2,361	2,423
Other financing sources:			
Federal employee retirement benefit costs paid by OPM & imputed to agency	(11,670)	-	(11,670)
Total Components of Net Operating Cost Not Part of the Budget Outlays	$ (20,002)	$ (127,909)	$ (147,911)
Components of the Budget Outlays That Are Not Part of Net Operating Cost:			
Acquisition of capital assets	-	28,894	28,894
Other	-	(5,876)	(5,876)
Total Components of the Budgetary Outlays That Are Not Part of Net Operating Cost	$ -	$ 23,018	$ 23,018
Other Temporary Timing Differences			
NET OUTLAYS (Calculated Total)	$ 102,022	$ 10,140,117	$ 10,242,139
Related Amounts on the Statement of Budgetary Resources			
Outlays, net (total) (discretionary and mandatory)			$ 10,271,908
Distributed offsetting receipts (-)			(29,769)
Agency outlays, net (discretionary and mandatory)			$ 10,242,139

Note 17 – Reconciliation of Net Costs to Net Outlays (continued)

FY 2019	Intra-governmental	With the Public	Total
Net Cost of Operations	$ 113,310	$ 10,595,622	$ 10,708,932
Components of Net Operating Cost Not Part of the Budgetary Outlays:			
Property, plant, and equipment depreciation	-	(23,200)	(23,200)
Increase/(Decrease) in Assets not affecting Budget Outlays:			
Accounts receivable	56	(3,640)	(3,584)
Other assets	(624)	(5,000)	(5,624)
Investments	-	(5,214)	(5,214)
(Increase)/Decrease in Liabilities not affecting Budget Outlays:			
Accounts payable	2,379	(167,160)	(164,781)
Salaries and benefits	(613)	(1,602)	(2,215)
Other liabilities (Unfunded leave, unfunded FECA, actuarial FECA)	12	36,033	36,045
Other financing sources:			
Federal employee retirement benefit costs paid by OPM & imputed to agency	(13,345)	-	(13,345)
Total Components of Net Operating Cost Not Part of the Budget Outlays	$ (12,135)	$ (169,783)	$ (181,918)
Components of the Budget Outlays That Are Not Part of Net Operating Cost:			
Acquisition of capital assets	-	17,324	17,324
Other	(1)	(17,201)	(17,202)
Total Components of the Budgetary Outlays That Are Not Part of Net Operating Cost	$ (1)	$ 123	$ 122
Other Temporary Timing Differences			
NET OUTLAYS (Calculated Total)	$ 101,174	$ 10,425,962	$ 10,527,136
Related Amounts on the Statement of Budgetary Resources			
Outlays, net (total) (discretionary and mandatory)			$ 10,582,524
Distributed offsetting receipts (-)			(55,388)
Agency outlays, net (discretionary and mandatory)			$ 10,527,136

Note 18 – Disclosure Entities

Universal Service Administrative Company (USAC) – The Commission is responsible for the overall management and oversight of the USF, including all USF policy decisions. USAC was established in 1997 as a not-for-profit subsidiary of the National Exchange Carrier Association, Inc. (NECA), and in that same year, the FCC appointed USAC as the permanent administrator, under the Commission's direction, of the four USF programs and the newly established CCPP. The four USF programs are High Cost, Lifeline, Rural Health Care, and School and Libraries. USAC, as the administrator of the USF, is responsible for the effective administration of the USF programs, including billing, collection, and disbursement.

Note 18 – Disclosure Entities (continued)

National Exchange Carrier Association, Inc. (NECA) – NECA was established as a non-stock Delaware corporation, which, pursuant to FCC rules, files interstate access tariffs and administers interstate access revenue pools for local telephone companies throughout the United States including its territories. NECA performs data collection functions for the High Cost program and bills USAC for the associated costs. NECA is compensated by USAC in accordance with NECA's Cost Accounting and Procedures Manual. NECA has no management control over USAC and derives no economic benefits from this subsidiary relationship. NECA does not consolidate with USAC's financial statements since it does not meet the criteria for consolidation in accordance with the accounting standards for consolidation of all majority-owned subsidiaries. The investment in USAC, which is carried at cost, is insignificant to these financial statements.

North American Numbering Plan Administrator (NANPA) Program – The NANPA administers a telephone numbering plan, the North American Numbering Plan, that encompasses 20 countries primarily in Northern America. For the United States only, the program also includes the functions of the Pooling Administrator, which administers pooling of geographic phone numbers in the United States, and the Routing Number Administrator, which administers use of certain special purpose numbers. The NANPA program is funded by fees charged to member countries for its services provided to them. In the United States, the telecommunications service providers directly pay for the NANPA services provided to the United States, per FCC rules. While the FCC requires these costs to be recovered from service providers, the receipts go directly to the Billing and Collection Agent for disbursement to the NANPA and is never included in the Federal budget. The Commission contracts for and exercises oversight over the NANPA, currently Somos, Inc., as well as the Billing and Collection Agent, currently Welch, LLP.

Local Number Portability Administrator (LNPA) Program – The LNPA program facilitates portability of U.S. geographic telephone numbers between telephony service providers. The LNPA program provides and operates the Number Portability Administration Center (NPAC) system that provides local number portability for the United States, performing the service of porting telephone numbers between service providers. The LNPA program is funded by fees the LNPA charges telecommunications service providers for its service, pursuant to FCC rules.

The FCC exercises oversight of the LNPA procurement process and regulates local number portability. The FCC has authorized the telephony service provider industry consortium, North American Portability Management, LLC (NAPM), to procure the LNPA and oversee the LNPA's performance and operation of the LNPA program. Currently iconectiv, LLC is the LNPA under a contract with NAPM; iconectiv, LLC is a subsidiary, subject to a voting trust, of Telefonaktiebolaget LM Ericsson (d/b/a Ericsson), a publicly traded Swedish multinational networking and telecommunications company.

North American Portability Management, LLC (NAPM) – NAPM is a Delaware limited liability company formed for the purpose of engaging in business activities related to the development and implementation of policies for number portability in seven NPAC regions of the United States. The FCC formed NAPM to procure and manage the LNPA program (FCC 97-289, 12 FCC Rcd 12281).

NAPM is a telephony service provider industry consortium, whose membership is currently comprised of companies from a cross section of the industry representing wireless, wireline, cable, and Voice Over Internet Protocol (VoIP) providers. The purpose of NAPM is to negotiate and manage contracts for the LNPA program, including immediate oversight and management of the LNPA in accordance with the rules and policies of the FCC. NAPM manages the contracts for each of the seven regions with a third-party vendor chosen by NAPM and approved by the FCC to serve as the LNPA. NAPM is funded by fees charged to its members.

Note 18 – Disclosure Entities (continued)

In accordance with Statement of Federal Financial Accounting Standards (SFFAS) 47, *Reporting Entity,* the Commission reported USAC and NECA as disclosure entities beginning in FY 2018 and added NANPA program, LNPA program, and NAPM as disclosure entities beginning in FY 2019. None of these disclosure entities substantially meet the requirements to be consolidated entities. As of September 30, 2020, the likelihood is considered remote of any potential financial and non-financial risks or benefits for the Commission associated with the control of or involvement with USAC, NECA, NANPA program, LNPA program, or NAPM. USAC and NECA are all not-for-profit corporations, the NAPM is a Delaware limited liability company, and NANPA and LNPA are programs pursuant to FCC rules. USAC's annual reports are available at https://www.usac.org, while NECA's annual reports are available at https://www.neca.org. NANPA program's annual reports are submitted directly to FCC. LNPA program's annual reports are submitted to NAPM, which provides them to the FCC. NAPM does not produce and issue annual reports, however, it provides financial statements to the FCC.

The following summarizes the balances associated with Disclosure Entitles as of September 30, 2020 and 2019.

FY 2020	USAC	NECA	Total
Balance Sheet			
Other assets (Note 1 H)	$ 18,024	$ -	$ 18,024
Accounts payable[1]	7,270	27	7,297
Statement of Net Cost			
Net cost of operations[2]	$187,458	$ 482	$187,940
Statement of Changes in Net Position			
Net cost of operations[2]	$187,458	$ 482	$187,940

FY 2019	USAC	NECA	Total
Balance Sheet			
Other assets (Note 1 H)	$ 13,024	$ -	$ 13,024
Accounts payable[1]	5,632	27	5,659
Statement of Net Cost			
Net cost of operations[2]	$174,750	$ 510	$175,260
Statement of Changes in Net Position			
Net cost of operations[2]	$174,750	$ 510	$175,260

[1]This portion in the accounts payable consists of the USF administrative fees due to USAC and NECA.

[2] This portion of the operation expenses includes the administrative fees incurred in USF. The Commission approves the administrative costs to cover expenses such as: the salaries and benefits for the employees dedicated to managing the funds; rent and utilities for office space used; accounting and other financial reporting related services; and other management activities.

Note 19 – COVID-19 Activity

Due to the ongoing novel Coronavirus 2019 (COVID-19) pandemic, the Commission established the COVID-19 Telehealth Program through a Report and Order released on April 2, 2020. The Commission began accepting applications on April 13, 2020 and stopped accepting on June 25, 2020. The COVID-19 Telehealth Program is funded through a $200 million Congressional appropriation as part of the Coronavirus Aid, Relief, and Economic Security (CARES) Act, to immediately support eligible health care providers responding to the pandemic by providing funding for telecommunications services, information services, and connected devices necessary to provide critical connected care services whether for treatment of the COVID-19 disease or other health conditions during the COVID-19 pandemic. The COVID-19 Telehealth Program is a financial assistance program, not a grant program, that is designed to provide flexibility for eligible health care providers that apply for and receive funding commitments, and then request reimbursement for eligible expenses that they have purchased and received from their service providers or vendors under the COVID-19 Telehealth Program. As of July 8, 2020, FCC committed the full $200 million to eligible health care providers and as of September 30, 2020, has expended $52 million of budgetary resources. Also, see Note 1 I and M, and Note 3.

Note 20 – Subsequent Events

The auction of Priority Access Licenses for the 3550-3650 MHZ Band (Auction 105) concluded on August 25, 2020 with 228 winning bidders for a total of 20,625 licenses. The final payments of winning bids, $1.6 billion, were due October 1, 2020 per Public Notice DA-20-1009A1.

On November 4, 2020, the Commission reached a $200 million settlement in the Sprint Lifeline Investigation with T-Mobile. In addition to the civil monetary penalty, Sprint will enter into a compliance plan to help ensure future adherence to Lifeline program rules.

Note 21 – Reclassification of Balance Sheet, Statement of Net Cost, and Statement of Changes in Net Position for FR Compilation Process

To prepare the Financial Report of the U.S. Government (FR), the Treasury requires agencies to submit an adjusted trial balance, which is a listing of amounts by U.S. Standard General Ledger account that appear in the financial statements. Treasury uses the trial balance information reported in the Governmentwide Treasury Account Symbol Adjusted Trial Balance System (GTAS) to develop a Reclassified Balance Sheet, Reclassified Statement of Net Cost, and a Reclassified Statement of Changes in Net Position for each agency, which are accessed using GTAS. Treasury eliminates all intragovernmental balances from the reclassified statements and aggregates lines with the same title to develop the FR statements. This note shows the Commission's financial statements and the Commission's reclassified statements prior to elimination of intragovernmental balances and prior to aggregation of repeated FR line items. A copy of the 2020 FR will be found here: https://www.fiscal.treasury.gov/reports-statements/ as soon as it is released. The term "non-Federal" is used in this note to refer to Federal Government amounts that result from transactions with non-Federal entities. These include transactions with individuals, businesses, non-profit entities, and State, local, and foreign governments. OMB Circular No. A-136, *Financial Reporting Requirements—Revised* indicates that comparative presentation for the prior year is not required in the initial year of implementation.

Reclassification of Balance Sheet to Line Items Used for the Government-wide Balance Sheet as of September 30, 2020

FY 2020 FCC Balance Sheet		Line Items Used to Prepare FY 2020 Government-wide Balance Sheet				
Financial Statement Line	**Amounts**	**Dedicated Collections Combined**	**All Other Amounts (with Eliminations)**	**Eliminations Between Dedicated & All Other**	**Total**	**Reclassified Financial Statement Line**
ASSETS						**ASSETS**
Intragovernmental Assets						**Intragovernmental Assets**
FBWT	$ 18,787,296	$ 7,697,076	$ 11,090,220	$ -	$ 18,787,296	FBWT
Accounts Receivable	439	-	439	-	439	Accounts Receivable
Other Assets	2,863	-	2,863	-	2,863	Other
Total Intragovernmental Assets	**$ 18,790,598**	**$ 7,697,076**	**$ 11,093,522**	**$ -**	**$ 18,790,598**	**Total Intragovernmental Assets**
Accounts Receivable, Net	788,501	766,716	21,834	(49)	788,501	Accounts Receivable, Net
General PP&E, Net	79,878	16,441	63,437	-	79,878	General PP&E, Net
Other	18,024	18,024	-	-	18,024	Other
Total Assets	**$ 19,677,001**	**$ 8,498,257**	**$ 11,178,793**	**$ (49)**	**$ 19,677,001**	**Total Assets**

Note 21 – Reclassification of Balance Sheet, Statement of Net Cost, and Statement of Changes in Net Position to the Financial Report of the United States Government Format (continued)

Reclassification of Balance Sheet to Line Items Used for the Government-wide Balance Sheet as of September 30, 2020 (continued)

FY 2020 FCC Balance Sheet		Line Items Used to Prepare FY 2020 Government-wide Balance Sheet				
Financial Statement Line	**Amounts**	**Dedicated Collections Combined**	**All Other Amounts (with Eliminations)**	**Eliminations Between Dedicated & All Other**	**Total**	**Reclassified Financial Statement Line**
LIABILITIES						**LIABILITIES**
Intragovernmental Liabilities						**Intragovernmental Liabilities**
Liability to the General Fund of the U.S. Government for Custodial and Other Non-Entity Assets	$ 7,738,740	$ -	$ 7,738,740	-	$ 7,738,740	Liability to the General Fund of the U.S. Government for Custodial and Other Non-Entity Assets
	-	-	2,778	-	2,778	Benefit Program Contributions Payable[3]
Accounts Payable	10,525	-	10,525	-	10,525	Accounts Payable
	-	-	775	-	775	Other Liabilities (w/o Reciprocals)[3]
Other Liabilities[3]	3,553	-	-	-	-	Other liabilities
Total Intragovernmental Liabilities	**$ 7,752,818**	**$ -**	**$ 7,752,818**	**$ -**	**$ 7,752,818**	**Total Intragovernmental Liabilities**
Accounts Payable	827,857	788,001	39,856	-	827,857	Accounts Payable
Federal Employee and Veteran Benefits Payable[3]	3,019	23,400	3,019	-	26,419	Federal Employee and Veteran Benefits Payable[3]
Other						*Other*
Advances and Deferred Revenue	2,997,879	-	-	-	-	
Prepaid Contributions	108,399	-	-	-	-	
Accrued Liabilities for Universal Service	483,329	-	-	-	-	
Other	51,379	577,227	3,040,408	(49)	3,617,586	Other
Total Other[3]	*3,640,986*	*577,227*	*3,040,408*	*(49)*	*3,617,586*	*Total Other*[3]
Total Liabilities	**$ 12,224,680**	**$ 1,388,628**	**$ 10,836,101**	**$ (49)**	**$ 12,224,680**	**Total Liabilities**
NET POSITION						**NET POSITION**
Unexpended Appropriations – Funds from Dedicated Collections	$ 857,848	$ 857,848	$ -	$ -	$ 857,848	Unexpended Appropriations – Funds from Dedicated Collections
Cumulative Results of Operations – Funds from Dedicated Collections	6,251,781	6,251,781	-	-	6,251,781	Cumulative Results of Operations – Funds from Dedicated Collections
Unexpended Appropriations – All Other Funds	150,738	-	150,738	-	150,738	Unexpended Appropriations – All Other Funds
Cumulative Results of Operations – All Other Funds	191,954	-	191,954	-	191,954	Cumulative Results of Operations – All Other Funds
Total net position - Funds from dedicated collections	*7,109,629*	*7,109,629*	-	-	*7,109,629*	*Net Position - funds from dedicated collections*
Total net position - All other funds	*342,692*	-	*342,692*	-	*342,692*	*Net Position - funds other than those from dedicated collections*
Total Net Position	**$ 7,452,321**	**$ 7,109,629**	**$ 342,692**	**$ -**	**$ 7,452,321**	**Total Net Position**
Total Liabilities & Net Position	**$ 19,677,001**	**$ 8,498,257**	**$ 11,178,793**	**$ (49)**	**$ 19,677,001**	**Total Liabilities & Net Position**

[3] These line items do not match the line items in the reclassified financial statements due to a difference in reporting the "Federal Employee and Veteran Benefits", "Benefit program contributions payable" and "Other liabilities (without reciprocals)" and "Other Liabilities" at the agency level and Government-wide level.

Note 21 – Reclassification of Balance Sheet, Statement of Net Cost, and Statement of Changes in Net Position to the Financial Report of the United States Government Format (continued)

Reclassification of Statement of Net Cost to Line Items Used for the Government-wide Statement of Net Cost for the Year Ended September 30, 2020

FY 2020 FCC Statement of Net Cost		Line Items Used to Prepare FY 2020 Government-wide SNC			
Financial Statement Line	**Amounts**	**Dedicated Collections Combined**	**All Other Amounts (with Eliminations)**	**Total**	**Reclassified Financial Statement Line**
Gross Costs	$ 10,873,465	$ 10,303,597	$ 3,530,720	$ 13,834,317	Non-Federal Gross Cost
					Intragovernmental Costs
	-	-	45,195	45,195	Benefit Program Costs
	-	-	11,670	11,670	Imputed Costs
	-	-	52,771	52,771	Buy/Sell Costs
	-	-	9,515	9,515	Purchase of Assets
	-	-	13,686	13,686	Other Expenses (w/o Reciprocals
	-	-	(9,515)	(9,515)	Purchase of Assets Offset
	-	-	***123,322***	***123,322***	***Total Intragovernmental Costs***
Total Gross Costs	*$ 10,873,465*	*$ 10,303,597*	*$ 3,654,042*	*$ 13,957,639*	*Total Reclassified Gross Costs*
Earned Revenue[4]	(506,433)	-	(372,598)	(372,598)	Non-Federal Earned Revenue
					Intragovernmental Revenue
	-	-	(1,295)	(1,295)	Buy/Sell Revenue
	-	-	(2)	(2)	Borrowing and Other Interest Revenue
	-	-	***(1,297)***	***(1,297)***	***Total Intragovernmental Earned Revenue***
Total Earned Revenue	*(506,433)*	-	*(373,895)*	*(373,895)*	*Total Reclassified Earned Revenue*
Net Cost	**$ 10,367,032**	**$ 10,303,597**	**$ 3,280,147**	**$ 13,583,744**	**Net Cost**
Exchange Statement of Custodial Activity					
Refunds and Other Payments - Auctions Salaries & Expenses	-	-	(132,539)	(132,539)	Buy/Sell Revenue (Intradepartmental Eliminations for Auctions Salaries & Expenses)[4]
	-	-	(3,804,173)	(3,804,173)	Reverse Incentive Auction winning bidders[5]
Net Cost of Operations	**$ 10,367,032**	**$ 10,303,597**	**$ 63,435**	**$ 10,367,032**	**Net Cost of Operations**

[4] Pursuant to 47 U.S.C. § 309, the Commission may retain a portion of the spectrum auction proceeds to offset the cost of performing the auction function. Collections used to offset the cost of performing auction-related activity were appropriated at $132,539 for FY 2020. At the agency level these amounts are recognized on the Consolidated Statement of Custodial Activity in the "Refunds and Other Payments" sections on the line "Auctions Salaries & Expenses (FCC)" and the "Less: earned revenues not attributed to programs" on the Consolidated Statement of Net Cost. At the Government-wide level these amounts are eliminated on the Reclassified Statement of Net Cost.

[5] This is the valid difference due to Payments related to the FCC's custodial activities reported differently at the agency level than the Government-wide level. At the agency level, SGL 679000 Other Expenses Not Requiring Budgetary Resources, custodial is not cross-walked to the Statement of Net Cost. At the Government-wide level, SGL 679000 Other Expenses Not Requiring Budgetary Resources, custodial and non-custodial are cross-walked to the Reclassified Statement of Net Cost.

Note 21 – Reclassification of Balance Sheet, Statement of Net Cost, and Statement of Changes in Net Position to the Financial Report of the United States Government Format (continued)

Reclassification of Statement of Changes in Net Position to Line Items Used for Government-wide Statement of Operations and Changes in Net Position for the Year Ended September 30, 2020

FY 2020 FCC Statement of Changes in Net Position		**Line Items Used to Prepare FY 2020 Government-wide SCNP**			
Financial Statement Line	**Amounts**	**Dedicated Collections Combined**	**All Other Amounts (with Eliminations)**	**Total**	**Reclassified Financial Statement Line**
UNEXPENDED APPROPRIATIONS					
Unexpended Appropriations, Beginning Balance	$ 985,768	$ 8,141,565	$ 225,714	$ 8,367,279	Net Position, Beginning of Period
Appropriations Received	200,000	-	200,000	200,000	Appropriations Received as Adjusted
Appropriations Used	(177,182)	(125,104)	(52,078)	(177,182)	Appropriations Used (Federal)
Total Unexpended Appropriations	**$ 1,008,586**	-	-	-	
CUMULATIVE RESULTS OF OPERATIONS					
Cumulative Results, Beginning Balance	$ 7,381,511	-	-	-	
Other Adjustments: Appropriations Used	177,182	125,104	52,078	177,182	Appropriations Expended
Non-Exchange Revenues	9,274,981	-	-	-	***Non-Federal Non-Exchange Revenues***
SCA: Sources of Cash Collections: Fines and Penalties	63,343	9,271,661	66,152	9,337,813	Other Taxes and Receipts
SCA: Sources of Cash Collections: Spectrum Auctions	10,291,811	-	10,291,811	10,291,811	Miscellaneous Earned Revenues
SCA: Accrual Adjustments: Fines and Penalties	4,504	-	-	-	
	-	***9,271,661***	***10,357,963***	***19,629,624***	***Total Non-Federal Non-Exchange Revenues***
					Intragovernmental Non-Exchange Revenue
	-	-	688	688	Federal Securities Interest Revenue, including Associated Gains/Losses (Non-Exchange)
	-	-	4,327	4,327	Collections Transferred to a TAS Other Than the General Fund of the U.S. Government
	-	-	***5,015***	***5,015***	***Total Intragovernmental Non-Exchange Revenue***
Total Non-Exchange Revenues	*19,634,639*	*9,271,661*	*10,362,978*	*19,634,639*	*Total Reclassified Non-Exchange Revenues*
Other:					
Imputed Financing	11,670	-	11,670	11,670	Imputed Financing Sources (Federal)
					Intragovernmental Other
Other	(34,577)	-	-	-	
SCA: Disposition of Collections: (Increase)/Decrease in Amounts Yet to be Transferred (+/-)	(4,356,742)	-	(4,356,742)	(4,356,742)	Accrual of Collections Yet to be Transferred to a TAS Other than the General Fund
SCA: Disposition of Collections: Transferred to Others: U.S. Treasury	(2,786,204)		(2,820,781)	(2,820,781)	Non-Entity Custodial Collections Transferred to the General Fund
Total Other	*(7,165,853)*	-	*(7,165,853)*	*(7,165,853)*	*Total Reclassified Other*
SCA: Disposition of Collections: Refunds and Other Payments Auctions Salaries & Expenses (FCC)[4]	(132,539)	-	-	-	
SCA: Reverse Incentive Auction Winners[5]	(3,084,173)	-	-	-	
Total Financing Sources	**9,429,256**	-	-	-	
Net Cost of Operations	**10,367,032**	**10,303,597**	**3,280,147**	**13,583,744**	**Net Cost of Operations**
Ending Balance – Cumulative Results of Operations	**6,443,735**	-	-	-	
Total Net Position	**$ 7,452,321**	**$ 7,109,629**	**$ 342,692**	**$ 7,452,321**	**Total Net Position**

Required Supplementary Information

Required Supplementary Information – Schedule of Budgetary Resources by Major Account
For the Years Ended September 30, 2020 and 2019
(Dollars in thousands)

OMB Circular No. A-136, *Financial Reporting Requirements—Revised*, requires additional disclosure of an entity's budgetary information by major budgetary accounts if the information was aggregated for presentation purposes on the Statement of Budgetary Resources. Major budgetary accounts of the Commission include Salaries and Expenses (S&E), Auctions, TVBRF, USF and TRS. S&E represents general salaries and expenses of the Commission and the COVID-19 Telehealth Program. Auctions include salaries and expenses of the spectrum auctions program. The TVBRF represents reimbursements of relocation costs for eligible entities and for consumer education relating to the reorganization of broadcast television. USF includes the High Cost, Lifeline, Rural Health Care, and Schools and Libraries programs. The TRS Fund represents a program established to support relay services necessary for telecommunications access by speech or hearing-impaired individuals. Non-major budgetary accounts are aggregated under the Other column.

Reflected in the following chart are the major budgetary accounts of the Commission that are aggregated and presented in the Combined Statement of Budgetary Resources.

Schedule of Budgetary Resources by Major Account

FY 2020	S&E	Auctions	TVBRF	USF	TRS	Other	Total
Budgetary Resources:							
Unobligated balance from prior year budget authority, net	$ 81,898	$ 41,860	$ 950,723	$ (10,763,629)	$ 298,766	$ 2,840	$ (9,387,542)
Appropriations (discretionary and mandatory)	200,000	-	-	7,960,080	1,488,713	-	9,648,793
Spending authority from offsetting collections (discretionary and mandatory)	339,880	132,539	-	-		2	472,421
Total budgetary resources	$ 621,778	$ 174,399	$ 950,723	$ (2,803,549)	$ 1,787,479	$ 2,842	$ 733,672
Status of Budgetary of Resources:							
New obligations and upward adjustments (total)	$ 588,460	$ 131,676	$ 243,229	$ 6,911,471	$ 1,441,307	$ -	$ 9,316,143
Unobligated balance, end of year:							
Apportioned, unexpired accounts	26,776	30,982	707,494	-	346,172	2,816	1,114,240
Exempt from apportionment, unexpired accounts	-	-	-	(9,715,020)		-	(9,715,020)
Unapportioned, unexpired accounts	6,338	11,741	-	-	-	26	18,105
Unexpired unobligated balance, end of year	33,114	42,723	707,494	(9,715,020)	346,172	2,842	(8,582,675)
Expired unobligated balance, end of year	204	-	-	-	-	-	204
Unobligated balance, end of year (total)	33,318	72,723	707,494	(9,715,020)	346,172	2,842	(8,582,471)
Total status of budgetary resources	$ 621,778	$ 174,399	$ 950,723	$ (2,803,549)	$ 1,787,479	$ 2,842	$ 733,672
Outlays, Net:							
Outlays, net (discretionary and mandatory)	$ 60,863	$ (7,835)	$ 546,036	$ 8,249,044	$ 1,423,802	$ (2)	$ 10,271,908
Distributed offsetting receipts (-)	(28,406)	-	-	-	(1,363)	-	(29,769)
Agency outlays, net (discretionary and mandatory)	$ 32,457	$ (7,835)	$ 543,036	$ 8,249,044	$ 1,422,439	$ (2)	$ 10,242,139

Required Supplementary Information – Schedule of Budgetary Resources by Major Account (continued)

FY 2019	S&E	Auctions	TVBRF	USF	TRS	Other	Total
Budgetary Resources:							
Unobligated balance from prior year budget authority, net	$ 87,470	$ 40,028	$ 642,269	$ (5,402,835)	$ 163,218	$ 2,838	$ (4,467,012)
Appropriations (discretionary and mandatory)	-	-	400,000	8,251,548	1,504,566	-	10,156,114
Spending authority from offsetting collections (discretionary and mandatory)	340,183	130,284	-	-	-	5	470,472
Total budgetary resources	$ 427,653	$ 170,312	$ 1,042,269	$ 2,848,713	$ 1,667,784	$ 2,843	$ 6,159,574
Status of Budgetary of Resources:							
New obligations and upward adjustments (total)	$ 397,747	$ 131,809	$ 125,463	$ 14,222,956	$ 1,369,754	$ 4	$ 16,199,733
Unobligated balance, end of year:							
Apportioned, unexpired accounts	73,846	32,348	897,685	-	298,030	2,816	1,304,725
Exempt from apportionment, unexpired accounts	-	-	-	(11,374,243)	-	-	(11,374,243)
Unapportioned, unexpired accounts	3,818	6,155	19,121	-	-	23	29,117
Unexpired unobligated balance, end of year	77,664	38,503	916,806	(11,374,243)	298,030	2,839	(10,040,401)
Expired unobligated balance, end of year	242	-	-	-	-	-	242
Unobligated balance, end of year (total)	77,906	38,503	916,806	(11,374,243)	298,030	2,839	(10,040,159)
Total status of budgetary resources	$ 427,653	$ 70,312	$ 1,042,269	$ 2,848,713	$ 1,667,784	$ 2,843	$ 6,159,574
Outlays, Net:							
Outlays, net (discretionary and mandatory)	$ (26,887)	$ (19,602)	$ 580,229	$ 8,682,566	$ 1,366,224	$ (5)	$ 10,582,525
Distributed offsetting receipts (-)	(23,929)	-	-	(26,590)	(4,869)	-	(55,388)
Agency outlays, net (discretionary and mandatory)	$ (50,816)	$ (19,602)	$ 580,229	$ 8,655,976	$ 1,361,355	$ (5)	$ 10,527,137

III. OTHER INFORMATION (UNAUDITED)

Summary of Financial Statement Audit

Financial Statement Audit Opinion	Unmodified				
Restatement	No				
Material Weaknesses	Beginning Balance	New	Resolved	Consolidated	Ending Balance
	0	0	0	0	0
Total Material Weaknesses	**0**	**0**	**0**	**0**	**0**

See accompanying auditor's report.

Summary of Management Assurances

Effectiveness of Internal Control over Financial Reporting (FMFIA § 2)						
Statement of Assurance	Unmodified					
Material Weaknesses	Beginning Balance	New	Resolved	Consolidated	Reassessed	Ending Balance
	0	0	0	0	0	0
Total Material Weaknesses	**0**	**0**	**0**	**0**	**0**	**0**

Effectiveness of Internal Control over Operations (FMFIA § 2)						
Statement of Assurance	Unmodified					
Material Weaknesses	Beginning Balance	New	Resolved	Consolidated	Reassessed	Ending Balance
	0	0	0	0	0	0
Total Material Weaknesses	**0**	**0**	**0**	**0**	**0**	**0**

Conformance with financial management system requirements (FMFIA § 4)						
Statement of Assurance	Federal Systems conform to financial management system requirements					
Non-Conformances	Beginning Balance	New	Resolved	Consolidated	Reassessed	Ending Balance
	0	0	0	0	0	0
Total Non-Conformances	**0**	**0**	**0**	**0**	**0**	**0**

Payment Integrity

The Federal Communications Commission (FCC or Commission) incorporated improper payment analysis and testing into its processes in Fiscal Year (FY) 2020 in compliance with the Payment Integrity Information Act (PIIA) of 2019 and guidance from the Office of Management and Budget (OMB).

In accordance with guidance from OMB, the FCC has reported detailed information on its activities related to improper payments for FY 2020 to a centralized website (https://www.paymentaccuracy.gov/) managed by OMB. For additional information about the FCC's improper payment efforts as well as information about all improper payments reported across the Federal government, please see: https://www.paymentaccuracy.gov/. The FCC is reporting the information below regarding auditor recovery recommendations as well as its fraud reductions efforts in accordance with the PIIA and related OMB guidance on financial reporting requirements for FY 2020

I. Actions Taken to Address Auditor Recovery Recommendations

Pursuant to OMB guidance on financial reporting, if an agency has a recovery audit program and has received recommendations from their recovery auditors regarding actions that can be taken to prevent overpayments, the agency should report on actions taken. The FCC tests all of its programs for the potential of improper payments and seeks to recapture any improper payments that are identified; additional information about the FCC's payment recapture efforts for all of its programs is available at https://www.paymentaccuracy.gov/. For the purposes of this section, the FCC is focusing specifically on its payment recapture efforts for the Universal Service Fund (USF) because this program uses recovery auditors whereas the FCC's other program primarily rely on testing.

As discussed in Section 1 of the FCC's FY 2020 AFR, the current USF programs resulted from provisions in the Telecommunications Act of 1996 that codified and modified the Commission's longstanding policy of promoting universal telecommunications service throughout the nation. Pursuant to section 254 of the Act, the Commission established the USF along with rules and regulations governing how certain telecommunications service providers contribute to the USF and how those monies are disbursed. The Universal Service Administrative Company (USAC) administers the four USF programs under the guidance and direction of the FCC.

The four USF programs include: the High Cost Program (also known as the Connect America Fund), the Lifeline Program, the Rural Health Care Program, and the Schools and Libraries Program (also known as E-Rate). The High Cost Program provides funding to eligible service providers to help defray the cost of serving customers in high cost and rural areas. The Lifeline Program provides monthly discounts to help make communications services more affordable for low-income consumers. The Rural Health Care Program provides support for both telecommunications and advanced telecommunications and information services for eligible health care providers. The E-Rate Program provides discounts for telecommunications, Internet access, and internal connections to eligible schools and libraries. Additional information on USAC and the USF can be found at https://www.usac.org and https://www.fcc.gov/general/universal-service.

To detect improper payments, USAC has established payment recapture audits and an improper payment testing program. USAC's payment recapture audits are known as the Beneficiary and Contributor Audit Program (BCAP). USAC designed the BCAP audits to identify overpayments that must be recaptured, to assess compliance with FCC rules, and to deter waste, fraud, and abuse. USAC uses a combination of its own internal auditors as well as outside auditors to conduct BCAP audits. When USAC hires outside auditors, USAC ensures that these outside auditors receive proper training on the rules and requirements for the USF programs.

USAC examined the results of its audit and assessment programs which were conducted during FY 2020, and consistent with OMB guidance, USAC has implemented corrective action plans in response to any findings. In addition, USAC will incorporate the lessons learned from each recommendation into future audit and assessment efforts.

Through its BCAP program, USAC completed 52 audits in FY 2020, with 31 of those audits involving overpayments. Of the audits with overpayments, the auditors identified $1,435,171 for recovery. Efforts to recover these funds are underway. Below is a summary chart that provides the total number of audits performed and the estimated recovery amounts, by program for FY 2020:

Program / Area	# Audits	# Audits with Overpayments	Total Estimated Amount to be Recovered
USF-HC	14	9	$293,598
USF-S&L	38	22	$1,141,573
USF-LL	0	0	0
USF-RHC	0	0	0
Total	**52**	**31**	**$1,435,171**

II. Fraud Reduction Report

Pursuant to the Fraud Reduction and Data Analytics Act of 2015, Public Law 114-186, the FCC is providing the following information to report on its fraud reduction efforts, including the implementation of strengthened internal controls, fraud risk assessment, and fraud risk management. Beginning in FY 2015, the Commission implemented new risk assessment tools to update its pre-existing processes for internal controls evaluation. The FCC implemented this improvement both at the FCC and at its reporting components, which assist the FCC in managing the funds the FCC has the authority to oversee, including USF, the Telecommunications Relay Service fund (TRS), and the North America Numbering Plan fund (NANP).

The FCC's risk assessment process integrates the latest versions of the Government Accountability Office's (GAO), Standards for Internal Control in the Federal Government (Green Book), as well as OMB Circular A-123, *Management's Responsibility for Enterprise Risk Management and Internal Control*. Utilizing GAO's Green Book as a blueprint, the FCC implemented an entity level risk assessment tool that is completed each fiscal year by its largest Bureaus and Offices as well as its reporting components in alignment with the Enterprise Risk Management (ERM) framework for the Commission.

The entity level tool includes all 17 principles and 48 attributes from the Green Book and maps these 48 attributes to Commission's strategic goals. As such, each large organizational unit is asked to assess its fraud risk pursuant to Principle 8 of the Green Book. Furthermore, the Commission uses an additional program risk assessment tool for higher risk areas, such as USF and TRS, as well as functions related to auctions program, acquisitions, financial operations, human capital resources, and information technology. Like the entity level tool, the program risk assessment tool also includes fraud risk as an assessment area that program managers evaluate annually for these higher risk functions. Also, the Commission has started tracking the fraud risk remediation to hold the Commission's managers accountable for their particular responsibilities. The FCC's Senior Management Council meets quarterly to identify risk, propose corrective actions, remediate the risks, and map out risks that may affect the Commission going forward. Finally, the FCC's Enforcement Bureau (EB) and Office of Inspector General (OIG) also coordinate with relevant Commission Bureaus and Offices, as well as the Department of Justice (DOJ) as necessary, to share information and take appropriate action as suspected fraud related issues arise.

Building upon the FCC's improvements to these processes, the FCC has updated the entity-level risk assessment process to include ERM pursuant to OMB Circular A-123. The integration of ERM into the risk assessment process reinforced the fraud risk analysis already present in the entity-level tool. The ERM related updates require entities to evaluate the risks that they are facing, including fraud risks, in achieving their strategic, operational, compliance, and reporting objectives.

In summary, the FCC has put processes in place to gather and analyze information about the fraud risks in order to prevent and deter fraud and reduce or prevent improper payments in its programs. The FCC's sources of information include:

- Fraud risk analyses in the entity level assessments and the program level assessments,
- Investigations supporting enforcement actions,
- Audits of beneficiaries of the USF and TRS programs, and
- Testing of payments to USF and TRS beneficiaries as well as testing of FCC operating expenses, including payroll, contract payments, and the Telehealth Program.

Utilizing this information, the FCC is able to incorporate an enterprise-level view of the fraud risks into its operations as well as those facing the USF, TRS, and NANP funds.

Annually, the Commission takes these risks into account as it conducts its operations, implements new programs, or alters existing programs. If issues are detected that require mitigation, the FCC can quickly react to those issues, make course corrections, and take action as necessary, including withholding payments, seeking recovery of funds, amending existing processes, updating policies and procedures, and referring cases to the OIG as necessary for potential prosecution in conjunction with DOJ. Recently the FCC has also been working to develop a data-analytics tool to help detect fraud in the USF programs, and in August 2019, the FCC officially launched a new Fraud Division within the EB to focus on fraud in the USF programs.

Although the Commission has made improvements in its fraud risk efforts, there are still many areas for improvement. Some of these improvements include but are not limited to the following: 1) dedicating staff to manage fraud risk activities and adequately staffing with qualified and experienced resources, 2) conducting fraud risk assessments at regular intervals and determining the fraud risk profile, and 3) designing and implementing an antifraud strategy.

The Commission is dedicated to standing up a fraud risk working group separate from the ERM risk management group to increase the maturity level of its current fraud risk efforts. The Commission also understands implementing an effective fraud risk management process is important in helping to ensure its programs fulfill their intended purpose and goals. The Commission will continue to work beyond its current processes and raise the maturity level of its fraud risk efforts to align better with best practices in this area.

USF

USAC has established a Fraud Risk Group within USAC's Office of General Counsel (OGC) to perform fraud risk assessments of USF Programs in accordance with the GAO fraud risk framework.

During the course of conducting audits or Payment Quality Assurance (PQA) reviews, and also potentially through whistleblower complaints, USAC may identify instances of potentially fraudulent activity. Any such instances are reported to USAC's OGC, which collects information about the potentially fraudulent activity. USAC's OGC provides this information to the Commission's EB and OIG. The FCC will investigate and provide direction to USAC for recovery of USF support, if warranted.

On February 5, 2020, the Commission entered into a Consent Decree to resolve its investigation into whether a company violated the Commission's RHC Program Rules as well as the Commission's Contribution rules.

To settle this matter, the company admitted to the following: (a) using fabricated sales quotes as urban rates; (b) assisting health care providers in creating bid evaluation criteria and bid matrices during the competitive bidding period, and in responding to information requests from the USAC in contravention of RHC Program rules; (c) providing improper incentives to health care providers to encourage the awarding of contracts to the company; (d) failing to determine its rural rates in accordance with section 54.607 of the Commission's rules; and (e) invoicing USAC and receiving payment for telecommunications services it did not provide to health care providers. For over nine years, the company further admitted to failing to file accurate Telecommunications Reporting Worksheets (FCC Form 499-As) and failing to make required contributions payments.

The company agreed to a settlement value of $19.05 million in improper payments, and to implement enhanced compliance measures in connection with its participation in the RHC Program and its required contributions obligations. USAC has recaptured $7.40 million of this improper payment to date.

Schedule of Civil Monetary Penalties

On November 2, 2015, the Federal Civil Penalties Inflation Adjustment Act Improvements Act of 2015 ("the 2015 Act"), which was included as Section 701 of the Bipartisan Budget Act of 2015, was signed into law. The 2015 Act amended the Federal Civil Penalties Inflation Adjustment Act of 1990 to improve the effectiveness of civil monetary penalties and to maintain their deterrent effect.

The 2015 Act required agencies use an interim final rulemaking (IFR) to adjust the level of civil monetary penalties in 2016 with an initial "catch-up" adjustment. The 2015 Act also requires agencies to continue to make annual inflation adjustments in future years and to report on these adjustments annually.

On December 16, 2019, OMB provided its annual inflation adjustment update to agencies through OMB Memorandum M-20-05, *Implementation of Penalty Inflation Adjustments for 2020*. On December 27, 2019, the FCC's Enforcement Bureau adopted and released an order, DA-19-1325A1, which adjusted the Commission's forfeiture penalties for inflation for 2020.

The following table shows various civil monetary penalties that may be used by the Commission in carrying out its mission as well as additional information about the FCC's statutory authority for these penalties and the location of the FCC's most recent action to adjust these penalties for inflation.

Statutory Authority	Penalty (Name or Description)	Year Enacted	Latest year of adjustment (via statute or regulation)	Current Penalty Level ($ Amount or Range)	Sub-Agency/ Bureau/Unit	Location for Penalty Update Details
Communications Act of 1934, as amended	Willful or Repeated Violation	1954 - 2010	2020	Up to $3,825,726	Enforcement Bureau (EB)	Federal Register 85 No. 10 (January 15, 2020): 85 FR 2318. https://www.govinfo.gov/app/details/FR-2020-01-15/2020-00459 https://www.fcc.gov/document/2019-annual-adjustment-civil-monetary-penalties-reflect-inflation
47 U.S.C. 202 (c)	Discrimination	1989	2020	$12,294	EB	Same as above

Statutory Authority	Penalty (Name or Description)	Year Enacted	Latest year of adjustment (via statute or regulation)	Current Penalty Level ($ Amount or Range)	Sub-Agency/ Bureau/Unit	Location for Penalty Update Details
				$615/day		
47 U.S.C. 203 (e)	Schedules of Charges	1989	2020	$12,294 $615/day	EB	Same as above
47 U.S.C. 205 (b)	Commission Charges	1989	2020	$24,586	EB	Same as above
47 U.S.C. 214 (d)	Extension of lines	1989	2020	$2,458	EB	Same as above
47 U.S.C. 219 (b)	Annual Report	1989	2020	$2,458	EB	Same as above
47 U.S.C. 220 (d)	Failure to maintain records	1989	2020	$12,294	EB	Same as above
47 U.S.C. 223 (b)	Obscene/ harassing telephone calls	1983	2020	$127,398	EB	Same as above
47 U.S.C. 227 (e)	Telephone equipment restrictions	2010	2020	$11,766/violation $35,298/day for each day of continuing violation up to $1,176,638 for any single act or failure to act	EB	Same as above
47 U.S.C. 362 (a)	Radio on board ships – Forfeitures	1989	2020	$10,245	EB	Same as above
47 U.S.C. 362 (b)	Radio on board ships - Forfeitures	1989	2020	$2,050	EB	Same as above
47 U.S.C. 386 (a)	Radio on board ships - Forfeitures	1989	2020	$10,245	EB	Same as above
47 U.S.C. 386 (b)	Radio on board ships - Forfeitures	1989	2020	$2,050	EB	Same as above
47 U.S.C. 503 (b)(2)(A)	Penalty provisions	1989	2020	$51,222/violation or each day of a continuing violation up to $512,228 for any single act or failure to act	EB	Same as above
47 U.S.C. 503 (b)(2)(B)	Penalty provisions	1989	2020	$204,892/violation or each day of a continuing violation up to $2,048,915 for any single act or failure to act	EB	Same as above
47 U.S.C. 503 (b)(2)(C)	Penalty provisions	2006	2020	$414,454/violation or each day of a continuing violation up to $3,825,726 for any single act or failure to act	EB	Same as above
47 U.S.C. 503(b)(2)(D)	Penalty provisions	1989	2020	$20,489/violation or each day of a continuing violation up to $153,669 for any single act or failure to act	EB	Same as above
47 U.S.C. 503(b)(2)(F)	Penalty provisions	2010	2020	$117,664/violation or each day of a continuing violation up to $1,176,638 for any single act or failure to act	EB	Same as above

Statutory Authority	Penalty (Name or Description)	Year Enacted	Latest year of adjustment (via statute or regulation)	Current Penalty Level ($ Amount or Range)	Sub-Agency/ Bureau/Unit	Location for Penalty Update Details
47 U.S.C. 507 (a)	Payment disclosure	1954	2020	$2,029	EB	Same as above
47 U.S.C. 507 (b)	Payment disclosure	1954	2020	$297	EB	Same as above
47 U.S.C. 554(f)	Equal employment opportunity	1992	2020	$908	EB	Same as above

Office of Inspector General's Management and Performance Challenges

UNITED STATES GOVERNMENT
FEDERAL COMMUNICATIONS COMMISSION
OFFICE OF INSPECTOR GENERAL

MEMORANDUM

DATE: October 22, 2020

TO: Chairman Ajit Pai
Commissioner Michael O'Rielly
Commissioner Brendan Carr
Commissioner Jessica Rosenworcel
Commission Geoffrey Starks

FROM: Inspector General David Hunt for RM, AIGH

SUBJECT: Management and Performance Challenges

In accordance with the Reports Consolidation Act of 2000, the Office of Inspector General (OIG) is submitting the annual statement summarizing its assessment of the most serious management and performance challenges facing the Federal Communications Commission (FCC) in Fiscal Year 2020 and beyond. During its audits and investigations, OIG has recommended actions that best address these challenges. Additional information on OIG audits and investigations can be found in our most recent Semiannual Reports to Congress.

<u>Information Security</u>

In alignment with FCC's strategic objective to effectively modernize the agency's information technology, the FCC continues to undertake significant information technology (IT) initiatives to enhance services to its stakeholders. While the FCC focuses on achieving strategic objectives, the agency is still challenged with balancing the implementation of new technologies and a sustainable information security program that complies with federal mandates. Ensuring the confidentiality, integrity, and availability of this information in an environment of increasingly sophisticated security threats requires a well-developed, effective, agency-wide information security program.

While the Commission continued to strengthen its information security program, significant work is needed before the FCC achieves compliance with the Federal Information Security Modernization Act (FISMA). The FY 2020 FISMA evaluation identified two significant deficiencies in IT security - identity and access management, and information security continuous monitoring. These significant deficiencies represent repeat or updated findings and recommendations identified in prior year FISMA evaluations. Cloud-based modernization efforts, which fall under identity and access management, is one of the newer technologies the FCC and its components are continuing to implement in FY 2020 and beyond. While implementing these modernization efforts aligns with agency goals, the FCC must move forward with consistent oversight and monitoring. Balancing implementation of information technology initiatives with vigilance to improve compliance in information security standards remains a significant management challenge.

Universal Service Fund Programs

The Telecommunications Act of 1996 created the framework for the Universal Service Fund (USF or Fund), consisting of support mechanisms for: 1) providing financial support to eligible telecommunications carriers that serve high-cost areas; 2) assisting schools and libraries with obtaining telecommunications and internet services; 3) assisting low-income consumers with obtaining affordable telephone service; and 4) assisting rural health care providers in gaining access to telecommunications and internet services. Under the direction of the Commission, the Fund is administered by the Universal Service Administrative Company (USAC). OIG has ongoing audits to identify program risks, ensure compliance with program rules, and provide recommendations to reduce waste and abuse of program resources. OIG has also devoted significant assets to investigating allegations of fraudulent activity involving Fund programs.

> Within *Strategic Goal 1: Closing the Digital Divide, FCC has recognized the need to develop a regulatory environment to encourage the private sector to build, maintain, and upgrade next• generation networks so that the benefits of advanced communications services are available to all Americans. Where the business case for infrastructure investment doesn't exist, employ effective and efficient means to facilitate deployment and access to affordable broadband in all areas of the country.*
>
> *Strategic Objective 1.1 seeks to Expand broadband deployment in all parts of the country, including hard-to-serve areas, rural areas, and Tribal lands, and reduce the digital divide across America by creating a light-touch regulatory environment that maximizes private sector investment in broadband.*

The Commission's efforts supporting this objective include the FCC's comprehensive reforms in the USF programs (e.g., implementation of the Connect America Fund) will require a significant investment of Commission resources, as well as effective USAC administration of Fund programs. Establishing direction and policy, managing transition, and ensuring that all USF program rules and regulations foster effective and efficient programs are significant management challenges.

Universal Service Fund Contributions Reform

There are several thousand contributors to the federal USF. However, the current USF contributions system is built on regulatory constructs from decades ago[1]. Contribution reform efforts are needed because although the marketplace has shifted to new services and new technologies, businesses are not required to finance the USF based on revenues from these sources under the current system. Only revenues from interstate and international telecommunications services and certain other telecommunications are subject to assessment. Additionally, the current form used to collect information from potential contributors uses terminology and categories that

[1] Testimony of Carol Mattey; Principal of Mattey Consulting LLC; Before the Subcommittee on Communications, Technology, Innovation and the Internet, of the Committee on Commerce, Science and Transportation, U.S. Senate, on "The Impact of Broadband Investments in Rural America", March 12, 2019.

do not reflect today's marketplace. While non-telecommunications revenues (which are not assessed) have almost doubled between 2010 and 2018, there has been a sharp decline in assessable telecommunications services and related revenues[2].

The FCC has sought comment on alternative contributions methodologies multiple times. For example, in June 2020, the FCC sought comments to refresh the record in the 2012 Contributions Reform Further Notice of Proposed Rulemaking. This Notice pertains to whether the Commission should exercise its permissive authority under Section 254(d) of the Telecommunications Act of 1996[3] to include in the contribution base revenues derived from the provision of "one-way" voice over Internet Protocol (VoIP) services[4]. An agreement has not yet been reached on the best way to increase contributions to the USF to ensure its sustainability.

High Cost Program

The USF High Cost program provides $4.5 billion annually to ensure robust, affordable voice and broadband service, both fixed and mobile, are available to Americans throughout the nation. Under the USF lntercarrier Compensation (ICC) Transformation Order, issued in 2011, the Rate-of-Return Carriers Reform Order, issued in 2016, and the subsequent series of Commission Connect American Fund (CAF) orders issued over the last nine years, the High Cost program has been transitioning its support to multi-purpose networks capable of fixed and mobile broadband and voice services in rural, insular, and other high cost areas, and phasing out support for voice-only networks. During this transition the CAF program is using separate support mechanisms for the legacy High Cost program and the new CAF programs. The CAF relies on incentive-based, market-driven policies, utilizing methodologies such as competitive bidding, to distribute High Cost program services in a more efficient and effective manner. Funding under the CAF is more transparent, easier to administer, and does not present the inherent risks and impediments to preventing fraud and waste and abuse in the program, compared to the historical model used to distribute funding to rate-of-return carriers, which remains problematic.

Nevertheless, the FCC' s challenge is to ensure the CAF orders are timely implemented and meet their purposes and goals. Even under the comparatively simplified CAF distribution models, systematic monitoring and verification of the CAF programs will be necessary to ensure carriers have fulfilled their build-out obligations and service requirements to all required locations in their service areas, and provide service at speeds required under the Commission's rules. USAC developed an information system, the High Cost Universal Broadband (HUBB) portal, to assist

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[2] *Universal Service Monitoring Report; CC Docket No. 96-45;* 2019, For Data Received Through September 2019, Prepared by Federal and State Staff for the Federal-State Joint Board on Universal Service; Table 1.1.

[3] Title 47 CFR 254d- (d) Telecommunications carrier contribution. Every telecommunications carrier that provides interstate telecommunications services shall contribute, on an equitable and nondiscriminatory basis, to the specific, predictable, and sufficient mechanisms established by the Commission to preserve and advance universal service. The Commission may exempt a carrier or class of carriers from this requirement if the carrier's telecommunications activities are limited to such an extent that the level of such carrier's contribution to the preservation and advancement of universal service would be de minimis. Any other provider of interstate telecommunications may be required to contribute to the preservation and advancement of universal service if the public interest so requires.

[4] FCC Public Notice; DA 20-614; Released June 11, 2020; Pleading Cycles Established; Comments Sought to Refresh the Record in the 2012 Contribution Methodology Reform Proceeding with Regard to One-Way VOIP Service Providers; WC Docket No. 06-122; GN Docket No. 09-51.

USAC management in determining if carriers were meeting their obligation to provide high-speed internet to specific underserved locations, including meeting minimum performance standards and service speeds.

Carriers with deployment obligations are required to report progress in meeting their FCC-required milestones by filing broadband deployment data and related certifications within the HUBB portal. The portal tracks where carriers are building-out high-speed Internet service by latitude and longitude; provides evidence that carriers are meeting minimum performance standards, i.e., upload and download speeds; and documents whether they have met applicable deployment milestones. All of this information must be monitored and timely analyzed, and USAC must take appropriate action against carriers who are not meeting their deployment and performance requirements, including withholding funding and, as appropriate, timely reporting such activity to the FCC's Enforcement Bureau and to OIG, particularly where USAC observes carrier rule violations that suggest a carrier's actions are not isolated, but are part of a pattern of inappropriate activity.

Schools and Libraries (E-rate) Program

Effective in 2015, the Commission's two E-rate Modernization Orders adopted three program goals: 1) ensure schools and libraries have access to affordable high-speed broadband internet services; 2) maximize the cost-effectiveness of spending for E-rate program supported purchases; and 3) ensure the application process is fast, simple, and efficient. The orders also increased the program funding cap from $2.4 to $3.9 billion and established a performance management system to help to evaluate the effectiveness of the modernization orders and identify program improvements. In funding year 2019, the Schools and Libraries program, often called E-rate, received over 36,000 applications from schools and libraries nationwide and provided about $2.9 billion in program support to eligible entities.

The COVID-19 pandemic has directly affected school systems across the entire country and, thereby, impacted the delivery of E-rate program services. Instead of students attending school in person and accessing the internet within schools and libraries, many students are now required to resort to remote learning though internet access from their home. To assist with providing equipment and connectivity for at-home learning, the FCC issued an order waiving competitive bidding requirements known as the E-Rate program gift rule (47 CFR § 54.503(d)), which prohibits eligible schools, libraries, and consortiums from receiving anything of value from E-rate program service providers. The gift rule waiver permits service providers to offer, and any eligible E-Rate beneficiary to solicit and accept, improved capacity Wi-Fi hotspots, networking gear, or other things of value to assist schools and libraries, as well as teachers, with remote learning. The gift rule waiver is limited to offerings made by service providers and solicited or accepted by E-Rate eligible entities on behalf of students, teachers, or patrons while schools and libraries are closed as a direct result of the pandemic, regardless of funding year.

The gift rule waiver will remain in effect through December 31, 2020 to provide flexibility to schools and libraries. Since the order waives normal program requirements, the FCC and USAC must ensure the waiver is used properly and does not impair competitive bidding for future program funding years. The FCC's challenge is to continually use innovative approaches to create ways to serve students and schools during the COVID-19 pandemic, without creating gaps in controls that may increase the risks for fraud and abuse.

In addition to challenges associated with delivering effective E-rate program services during the pandemic, FCC and USAC management must ensure adequate program controls to detect and deter inherent program risks in addition to risks identified by prior OIG and USAC audits and OIG investigations, including:

- Missing or inadequate documentation to demonstrate compliance with FCC rules;
- Entities providing false documentation to USAC in response to document requests to support applications or invoices;
- Invoicing of the Fund for ineligible products or services;
- Potential conflicts of interest in the competitive bidding process;
- Inadequate documentation to substantiate compliance with competitive bidding rules;
- Service Provider billing inaccuracies; and
- Insufficient Children's Internet Safety Policies[5].

Lifeline Program

The FCC and USAC must continue to devote significant resources to combat waste, fraud and abuse in the Lifeline program. Despite significant reforms to the Lifeline program in 2012 and 2016, reports of fraud (largely involving the provision of service to ineligible individuals or the provision of multiple phones to eligible consumers) remain steady. In addition, OIG concerns related to ETC monitoring and compliance with usage rules have proliferated over the last several years. OIG maintains an active roster of investigations examining the conduct of multiple ETCs and their agents. The U.S. Department of Justice is pursuing criminal and civil sanctions against the culprits already identified by OIG's investigations. The FCC must continue to ensure adequate resources are dedicated to identifying new forms of fraud as the program evolves.

As in previous years, OIG continues to identify risks for the Lifeline program, including:

- ETCs lack proof of eligibility for subscribers to receive Lifeline service;
- ETCs lack documentation to support subscriber line reimbursements;
- Subscribers receive duplicate service from multiple ETCs;
- ETCs and their agents enroll ineligible and even phantom subscribers;
- ETCs or their agents continue to attempt to enroll already-deceased individuals;
- ETC failure to timely de-enroll subscribers who no longer qualify, who wish to de-enroll, who are not using the service, or have switched to another Lifeline carrier; and
- ETC failure to adequately supervise sales agents and continued use of commission-based compensation that incentivizes fraud.

Moreover, the FCC and USAC must monitor National Verifier enrollment attempts to identify ETCs and their agents who may attempt to circumvent added program safeguards. Although USAC completed its implementation of the Representative Accountability Database (RAD), the

[5] Schools and libraries subject to Children's Internet Protection Act (CIPA) may not receive the discounts offered by the E-rate program unless they certify that they have an Internet safety policy that includes technology protection.

FCC and USAC must ensure RAD fulfills its purpose by identifying and blocking agents who attempt fraudulent enrollments of subscribers.

Finally, in light of the ongoing COVID-19 pandemic, starting in March 2020 the Wireline Competition Bureau (WCB) issued waivers of certain Lifeline program rules through November 30, 2020, governing recertification, reverification, general de-enrollment, subscriber usage, income documentation, and documentation requirements for subscribers residing in rural areas on Tribal lands, as well as guidance concerning USAC periodic reviews. The waivers arose from WCB's recognition that telemedicine, telework, and online learning are necessary social distancing measures and, therefore, there is added importance of access to affordable communications services for low-income consumers. Nonetheless, many of the waived rules were originally implemented to prevent waste and abuse in the program. As further extension of these waivers seems likely, the Commission must remain vigilant that these waivers not become vehicles for abuse of USF Funds.

Rural Health Care Program and other newly created Health Care Programs

When the Commission established the Rural Health Care program in 1997, it capped program funding at $400 million per funding year. Beginning in funding year 2016, health care provider funding requests for high-speed broadband began to outpace that funding cap. On June 25, 2018, the Commission released the Rural Health Care Program Funding Cap Order, which adopted measures to promote health care delivery and telemedicine in rural area by providing a sufficient and more predictable source of universal service funding. Specifically, the Commission adopted rules that: (1) increased the annual Rural Health Care program funding cap to $571 million and applied it to Funding Year 2017; (2) annually adjusted the Rural Health Care program funding cap to reflect inflation, beginning with funding year 2018; and (3) established a process to carry-forward unused funds from past funding years for use in future funding years.

Although OIG investigators have seen evidence of millions of dollars of fraud in the Rural Health Care (RHC) program in recent years, we have been unsuccessful in our attempts to prosecute these matters either civilly or criminally. It was the view of several US attorneys that the RHC cases we attempted to prosecute were fraught with legal obstacles and thus too risky to pursue, citing the difficulty in applying arguably ambiguous Commission rules and low potential recovery amounts (under $1 million) as obstacles. The lack of the "fair and open" standard specifically contained and stated in the RHC rules, along with the lack of a direct prohibition on being both the service provider and consultant in a transaction (which increases the risk of a potential conflict of interest), led to the difficulty in establishing the requisite scienter necessary to prove fraud in investigations. Furthermore, the absence of any other bids in response to the Form 465, *Description of Services Requested and Certification Form,* hindered our ability to prove harm.

On August 1, 2019, the Commission adopted Report and Order *Promoting Telehealth in Rural America,* WCB Docket No. 17-310. The Report and Order aimed to improve the RHC program competitive bidding process by adding a "fair and open" standard. It also implemented rules prohibiting service providers who intend to bid on supported services from assisting an applicant in completing the request for proposal or request for services forms and prohibiting a service provider who has submitted a bid from evaluating bids or choosing a winning bidder. Nevertheless, effective implementation of these newer rules by the FCC and USAC, diligent agency enforcement of both the newer rules and the existing rules, as well as general oversight of the Program, remains a significant management challenge.

On March 18, 2020, the Commission also issued an order waiving the RCH program gift rule (47 CFR § 54.622(h)). Specifically, rural hospitals and healthcare providers are preparing for an increase of patients via in-person and telemedicine visits, in response to the COVID-19 pandemic. Due to the need for increased connectivity during the pandemic, the gift rules for RHC are waived through September 30, 2020. The waiver allows hospitals and healthcare providers to accept internet services and equipment as gifts. Because the order waives normal program requirements prohibiting gifts, the FCC and USAC must ensure the waiver is used properly and does not impact competitive bidding for future funding years. FCC's challenge is to continually use innovations to create ways to support rural hospitals and healthcare providers during the pandemic without creating gaps in controls that increase the risks for conflicts of interests, fraud and abuse.

Coronavirus Aid, Relief, and Economic Security Act

On March 27, 2020, the Coronavirus Aid, Relief, and Economic Security Act (CARES Act) was enacted, providing $2.4 trillion in economic relief to individuals and businesses throughout the country to address the health, economic, and societal impacts of the COVID-19 pandemic. The CARES Act allocated $200 million to the FCC to support health care providers in their provision of connected care services. On March 31, 2020, to effectuate Congress's intent, the Commission adopted a Report and Order establishing the COVID-19 Telehealth Program.

OIG offered WCB suggestions on ways to reduce risk in this program, such as bolstering certifications in the application and invoicing forms. Also in response to a FCC management inquiry regarding the Single Audit Act's implications for the Telehealth Program, OIG's Office of Audit recommended that management consider tests of program compliance to ensure funding went to the areas hardest hit by COVID-19 and where funding has the greatest impact on addressing the health care needs, as established in the Commission's Report and Order.

In addition to potentially weak certifications raising issues of future enforcement and prosecution, administration of this program raises an additional management risk. Traditionally, the FCC has utilized administrators to run Commission programs, such as the USF and Telecommunications Relay Service (TRS) programs. The FCC decided to keep administration of the COVID-19 Telehealth Program – including evaluating applications for support and reviewing and approving invoices for payment – at the Commission. We see a management risk resulting from the high dollar value of the funding and the speed at which this new program needs to be implemented in response to the pandemic. We believe it is imperative that the Commission focus its efforts on closely monitoring internal controls and modifying the program as needed during the invoicing and reimbursement phases to address any potential fraud and other program deficiencies to ensure that risk is appropriately managed to protect the program against waste, fraud, and abuse.

Connected Care Pilot Program

On April 2, 2020, the Commission released a *Report and Order* establishing the Connected Care Pilot Program, making available up to $100 million over three years to eligible health care providers. With a focus on supporting services for low-income Americans and veterans, the Pilot Program will strive to improve health outcomes through connected care; reduce health care costs for patients, facilities and the health care system; and to support the trend towards connected care across the United States. As the Commission develops Pilot Program rules and processes, OIG is taking an active role in engaging with the Commission to identify potential risks in the implementation. Whereas this program involves a large dollar amount to be distributed to various projects throughout the country over the next three years, administration and oversight of this fund will pose significant management challenges.

Telecommunications Relay Service

The OIG understands that utilization of TRS-related services, particularly IP CTS, have increased in recent years, threatening to exceed the amount of funding available. Although the Office of Management and Budget (OMB) recently granted the FCC relief from TRS program improper payment testing procedures required by the Improper Payments Elimination and Recovery Improvement Act (IPERIA), it remains incumbent on management to ensure TRS program funds are properly disbursed on behalf of the intended program beneficiaries. This task may impose significant management challenges when confronting increasing program utilization and a potential funding shortfall.

Bridging the Digital Divide

In March 2020, Congress enacted the Broadband DATA Act[6], which gave the Commission 180 days to impose new rules to collect accurate and granular mapping data with the goal of updating and improving the accuracy of the broadband providers' broadband coverage maps used to evaluate nationwide broadband penetration. In April 2020, the Commission issued a Notice of Proposed Rulemaking and Order setting certain rules and requirements for the 5G Fund for Rural America and seeking comment on what maps to use to identify geographic areas eligible for subsidies. In July 2020, the FCC adopted new rules for improved collection and mapping of broadband availability. The Order implemented key provisions of the Broadband DATA Act, including requiring fixed and mobile providers to submit standardized broadband availability maps and taking steps to develop a common dataset of homes and businesses where fixed broadband networks could be deployed, over which service providers' broadband availability maps will be overlaid The rules also adopted filing and certification requirements, measures for determining the accuracy of broadband availability data (including audits and collecting crowdsourced data), standards for collecting and incorporating verified data for use in the coverage maps from governmental entities and certain third parties, and establishing the Broadband Serviceable Location Fabric. This order included a Further Notice of Proposed Rulemaking to collect additional information so the Commission could meet the 180-day deadline imposed by the Broadband DATA Act.

In October 2020, through the Rural Development Opportunity Fund's (RDOF's) Phase I auction, $16 billion of the Fund's total $20.4 billion will be distributed to bring high speed fixed broadband service to rural homes and small businesses that lack it. The areas targeted for 80 percent of the total RDOF investment were selected based on broadband mapping data noted for inaccuracies.

Additionally, while the Commission is in the process of setting rules for and collecting more granular broadband data, as required by the Broadband Data Act, the Commission must carefully consider the ramifications of deciding whether to proceed with the $9 billion 5G Fund for Rural America auction in 2021 using existing mapping data, or delaying that auction until 2023, when more granular broadband data, which would more accurately identify underserved areas, is available. Working toward ensuring that the maps reflect accurate broadband deployment and

[6] Public Law No. 116-130, *Broadband Deployment Accuracy and Technological Availability Act or the Broadband DATA Act*, March 23, 2020.

concomitantly that subsidies are disbursed to foster build-out in underserved areas to further the goal of bridging the digital divide and deploying 5G service, is a significant management challenge.

Compliance with Improper Payments Elimination and Recovery Improvement Act

The OIG's FY 2019 Improper Payments Elimination and Recovery Improvement Act (IPERIA) audit found that the FCC was non-compliant with the requirements of IPERIA for five of FCC's nine programs. The non-compliant programs include the four USF programs (High Cost, RHC, Lifeline, and Schools and Libraries) and the Interstate Telecommunications Relay Services Fund. In order to ensure compliance with IPERIA, FCC management and its fund administrators must:

- Ensure that the High Cost program improper payment estimation methodology considers components of the program that pose the most significant risks of improper payments;
- Reduce the improper payment rate in the Lifeline and RHC programs to a rate below the IPERIA error rate threshold of not more than 10 percent of program outlays;
- Meet the Schools and Libraries program improper payment reduction target and ensure the program follows the certified statistical sampling plan that the FCC submitted to OMB; and
- Ensure that the TRS Fund test plan used to estimate the improper payment rate address the program components that posed significant risks of improper payment.

Ensuring that the Commission is compliant with the requirements of IPERIA is considered a significant management challenge.

Compliance with the Digital Accountability and Transparency Act

In 2006, Congress passed the Federal Funding Accountability and Transparency Act (FFATA) of 2006[7], which requires OMB to ensure the existence and operation of a free, publicly accessible website containing data on Federal awards (such as contracts, loans, and grants). In order to comply with FFATA reporting requirements, OMB launched the website USAspending.gov.

In May 2014, the Digital Accountability and Transparency Act (DATA) of 2014 was signed into law, amending and augmenting FFATA, in order to increase accountability, transparency, accessibility, quality, and standardization in Federal spending data. The DATA Act requires Federal agencies to report financial and payment information to the public through USAspending.gov in accordance with Government-wide financial data standards developed and issued by OMB and the Department of the Treasury.

During our FY 2017 and 2019 audits of FCC's compliance with the DATA Act, we reported that the FCC did not submit transaction-level component spending data for the USF and TRS fund[8], as

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[7] Pub. L. No. 109-282, § 1 to 4 (Sept. 26, 2006).

[8] The FCC is comprised of three reporting components. The primary component consists of the FCC headquarters and field offices. The two additional components are USF and the North American Numbering Plan (NANP). The USF component reports the results of four support mechanisms: High Cost, Lifeline, Rural Health Care, and Schools and Libraries (the USF programs), and the TRS Fund. The FCC's Office of General Counsel (OGC) issued a legal opinion on May 23, 2017, which concluded, "USF and TRS disbursements are likely Federal awards for purposes of Federal Funding Accountability and Transparency Act (FFATA) and should be reported, to the extent technically possible, to USAspending.gov."

required by the Act. In addition, the financial and spending data the FCC submitted has contained accuracy and timeliness errors.

In FY 2021, the FCC will undergo its first DATA Act audit that includes USF spending data. The audit will determine how well FCC has implemented the DATA Act requirements for the USF fund. The USF budget, which totaled approximately $8 billion in FY 2019, is significantly greater than the FCC budget of approximately $1 billion, and thus reporting of USF spending data that has been audited and determined to comply with the Government-wide financial data standards for completeness and accuracy are essential to becoming compliant with DATA Act requirements. Additionally, the FCC will still need to implement the DATA Act reporting requirements for the TRS fund, which had a budget of approximately $1.5 billion in FY 2019. Therefore, we believe full compliance with the DATA Act remains a significant management challenge.

cc: Managing Director
Chief of Staff
Chief Financial Officer
Chief Information Office